



**detsky mir**

# Investor Presentation

Leading specialized children's goods retailer in Russia

May 2020

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**1** Detsky Mir at a glance

**2** New growth initiatives

**3** Our investment story

**4** Recent financial performance

**5** Appendix

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Detsky Mir at a glance

# Russia's children goods retail market leader with strong growth and attractive shareholder returns

## Key facts

**Undisputed #1 player**  
with 67% share of specialized children's goods retail market and 26% share of total children's goods market in Russia in 2019

**Iconic brand**  
with 99% prompted awareness<sup>1</sup>

**846 branded stores in 297 cities**  
in Russia, Kazakhstan and Belarus, of which 772 Detsky Mir, 58 ELC & ABC, 11 Zoozavr stores and 5 Detmir Pickup<sup>2</sup>

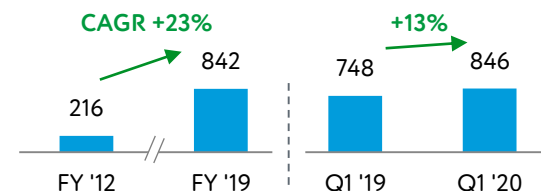
**Prime locations** in modern shopping malls with average store selling space of ~1,100 sqm

**Top-3 online children's goods retailer**  
19% market share in online children's retail in 2019

**Publicly listed**  
on the Moscow Stock Exchange since February 2017 with current free-float of 57.62%

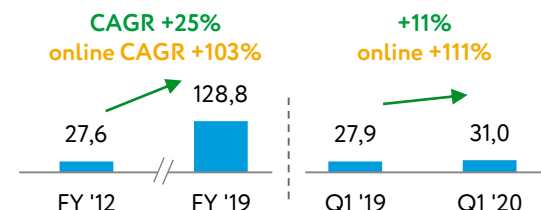
## Strong operational and financial results<sup>5</sup>

Total number of stores



**+101**  
New store openings in 2019

Total revenue (RUB bn)

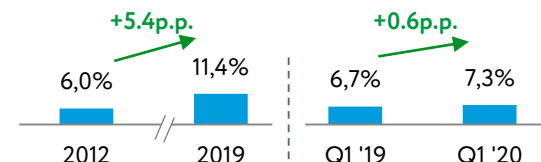


**+4.0%**  
LFL in Q1 2020 (Russia and Kazakhstan)

**25%**  
Share of online revenue in Russia March-20

**85%**  
Cash conversion<sup>3</sup> Q1 2020

Adjusted EBITDA<sup>4</sup> margin



**c.10%**  
Dividend yield<sup>6</sup>

**1.6x**  
Net debt/LTM adj. EBITDA Q1 2020

Revenue breakdown, 2019



Source: Company data, Ipsos Comcon

<sup>1</sup>"Children Goods Market in Russia" report by Ipsos Comcon ("Ipsos Comcon report"). Consumer survey conducted in December 2017

<sup>2</sup>As of 31 March 2020

<sup>3</sup>Calculated as (Adj. EBITDA - Capex) / Adj. EBITDA

<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>Under IAS 17

<sup>6</sup> Calculated as dividend per share announced in the last 12 months (RUB 4.45 for 2018 and RUB 5.06 interim dividend for 9M 2019) / share price as of the record dates

<sup>7</sup> Including large items, stationery, sports and seasonal goods

# Unlocking new growth horizons

FY 2019-Q1 2020 key achievements and significant future upside

## FY 2019-Q1 2020 Highlights

### 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 (40% of online sales)
- Successfully piloting marketplace (+15,000 SKU)

### White Space Expansion

- 101 Detsky Mir stores opened in 2019
- Continued growth in Kazakhstan with 38 stores
- Entry in Belarus with 8 stores (achieved breakeven on EBITDA level)

### Customer Traffic Generation

- Increased share of private label / direct imports by 570bps YoY to 41.6% in 2019 (+210bps YoY in Q1 2020)
- Loyalty program promotion – 25m loyalty cards holders, generating 81% of revenue in Q1 2020
- New CRM platform

### New Categories

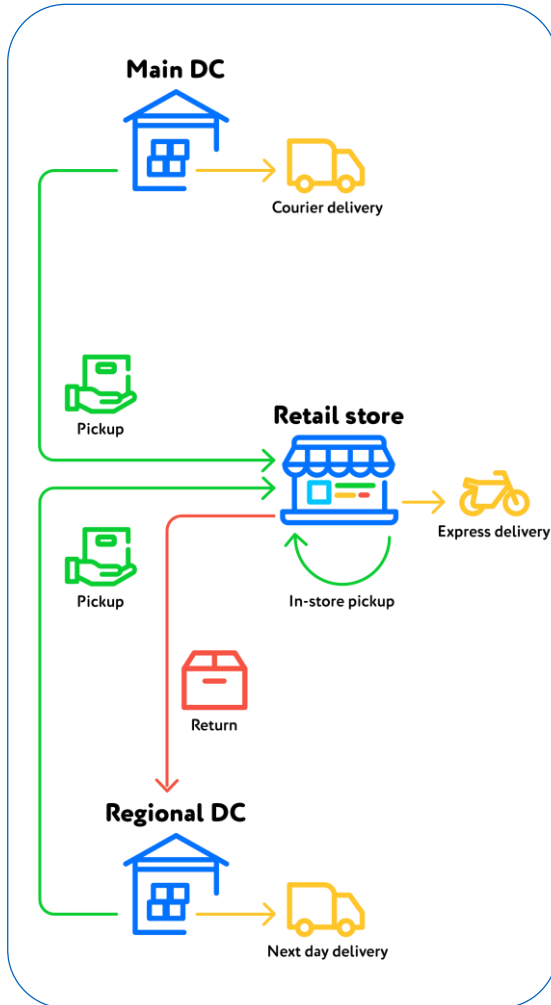
- Pilot Zouzavr pet supplies stores

## Drivers of future upside

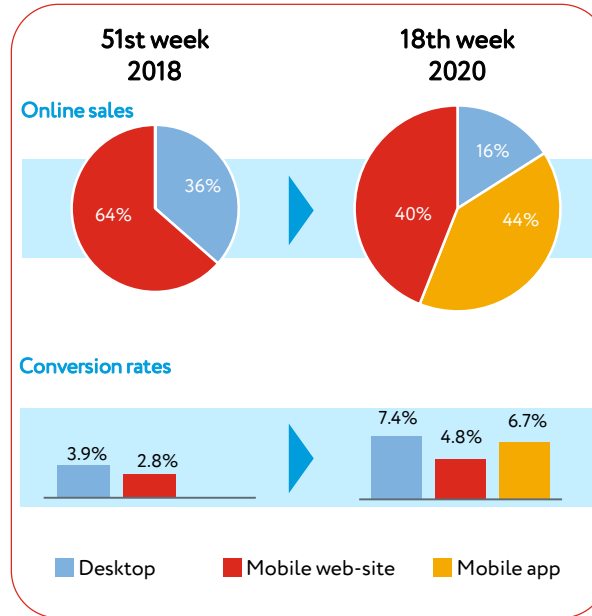
- Last mile delivery promotion and development (**New Regional DCs**)
- “**Mobile first concept**”
- Full scale rollout of children’s goods marketplace – **Fashion and FMCG**
- **~300 more Detsky Mir core format stores in 2020-23 (Russia, Kazakhstan and Belarus)**
- **New Detmir Pickup format (~2,000 stores)**
- **CIS expansion (entry in Kyrgyzstan in 2020)**
- **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**
- **Full rollout of Zouzavr concept**

# Major enhancements completed to drive market-leading omni-channel proposition

## Omni-channel delivery platform



## "Mobile first" concept – new Detsky Mir mobile app



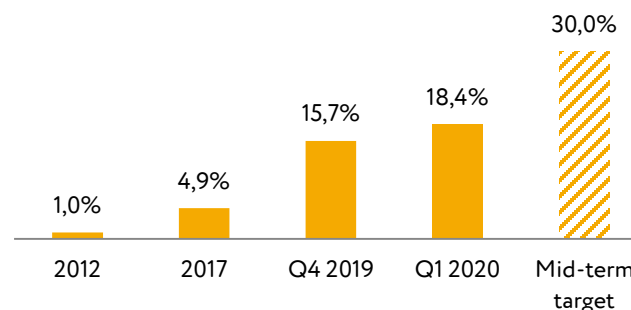
**2.1 million**  
downloads<sup>2</sup>

**#40** **#10**  
App ranking in Shopping category<sup>1</sup>

**#36** **#13**  
App ranking in Shopping category<sup>1</sup>

## Targeting doubling the share of online sales in the medium term

Share of online sales<sup>(3)</sup>



- Fully-equipped to capture online opportunity
- Unmatched intensity of customer engagement through omni-channel outreach
- No margin erosion given limited marketing expenses and optimized supply chain

Source: Company data, AppAnnie

<sup>1</sup> As of 21 February 2020 vs. 24 November 2019 based on AppAnnie data

<sup>2</sup> Number of downloads in 12th week of 2020

<sup>3</sup> As % of total revenue in Russia

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## New growth initiatives



# New Pilot: New Detmir Pickup compact store format

Unlocking smaller cities and rural areas + supporting the online sales as pick-up points

c. 2,000 new stores opportunity (decision on roll-out in Q2'2020)  
30%+ addition to the addressable market (~RUB700bn total market size)



1,800 – 2,000 SKUs



150-200 sqm total area  
130-170 sqm selling space



Limited assortment focused on goods for newborns and toys



Showroom functionality



Targeting c. 50/50 online/offline sales split

- Assortment focused on diapers, baby food, toys
- Pick up location for online orders (full assortment)
- Average target annual revenue/store: RUB20-25m
- Cover catchment area at 600m walking distance radius with no fewer than 2,000 inhabitants
- Significant expansion potential for DM beyond its current geographic coverage
  - 1,000 stores in cities and towns with 10-50k population
  - Another 1,000 stores in locations not accessible by core DM format stores



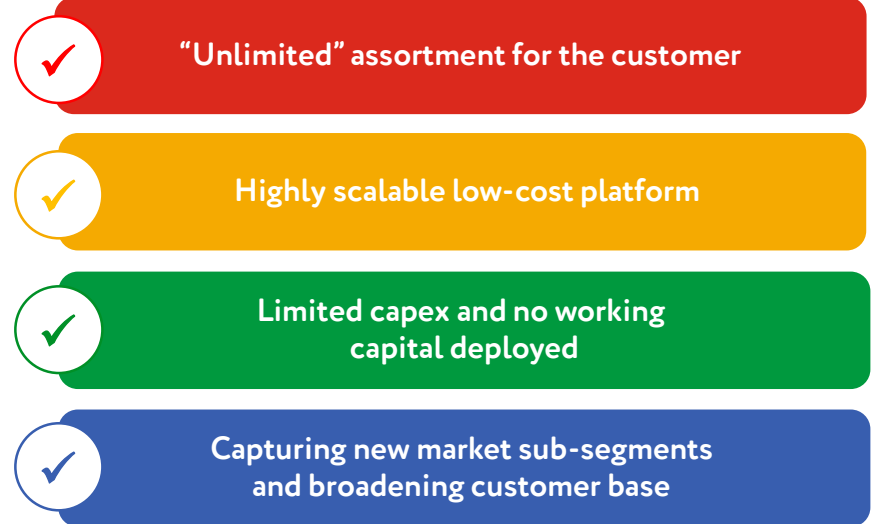
# New Pilot: 3P marketplace – landmark extension of the business model creating the new layer of growth

Imminent launch in the Fashion segment with potential for roll-out in other verticals

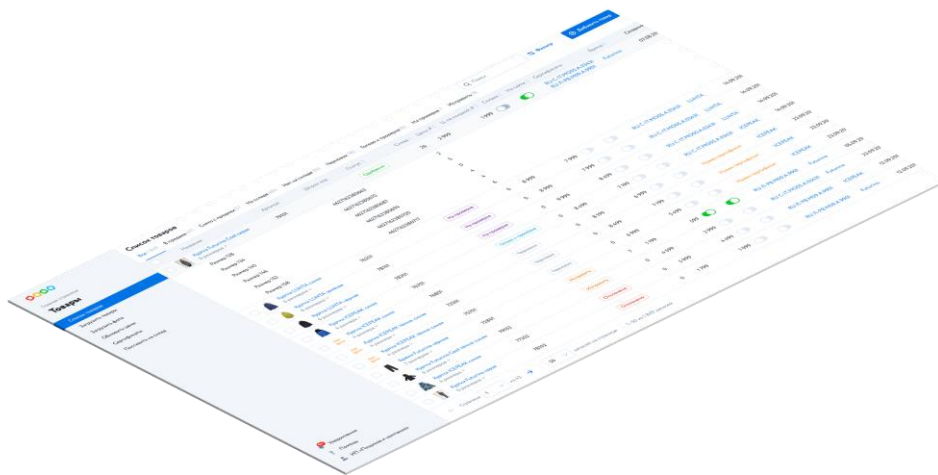
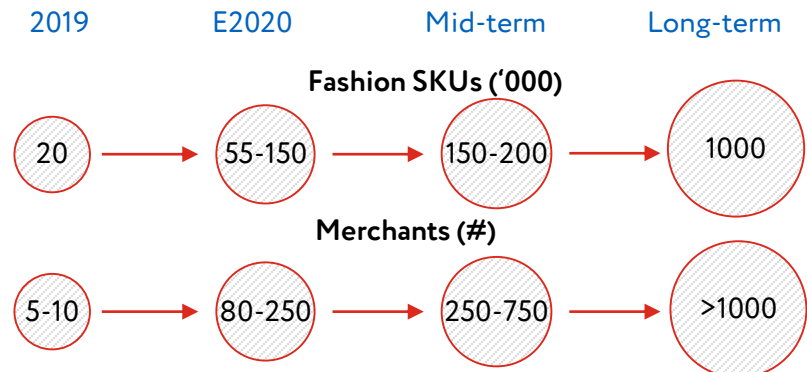
## Platform description



## Strategic relevance



## Targeting 30% share in fashion category in mid-term



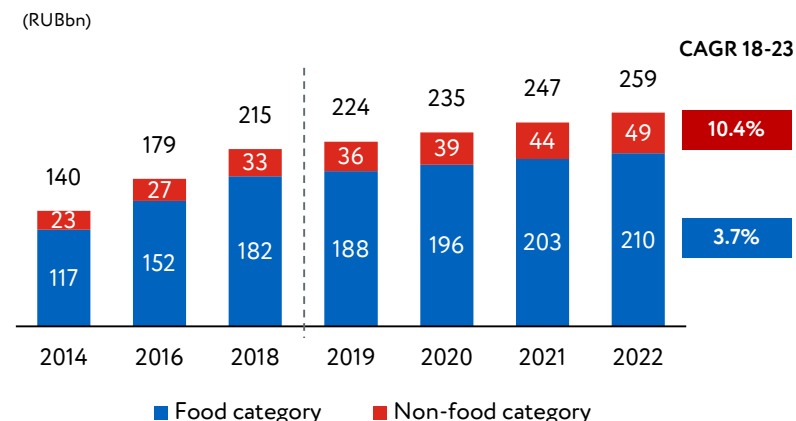
# New Pilot: Zoozavr specialized pet supplies stores

Targeting large and growing market with weak and fragmented competition

## Market opportunity

- Pet supplies is a large RUB215bn (2018) market in Russia
- Solid growth outlook
  - People tend to have fewer kids but more pets
  - Same elasticity to macro conditions as children's goods
  - Driven by rising pet ownership rate
  - Expected 4% CAGR in 2018-23, outpacing children's goods
- High fragmentation with weak competition
  - Specialized retailers account for just under 40% of market
  - Top 5 players - only 12% market share
  - No highly recognized brand or large, well-funded and efficient player
- Large overlap with children's goods' target customers and suppliers

## Russia pet supplies retail market size and forecast



## Strategy

**10 stores opened in 2019  
+ 10 stores to be opened in 2020;  
decision on broader roll-out by 2020 YE**

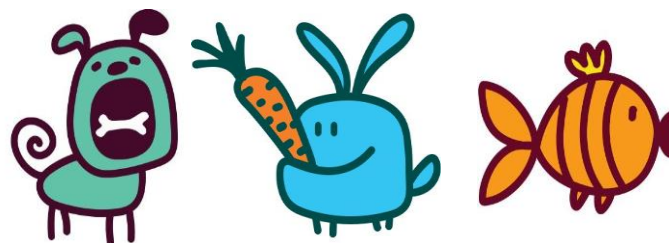
**Comprehensive assortment:  
c. 6.5k SKUs**

**Asset-light and profitable store format**

**Joint supply chain, pickup / delivery, online ordering and loyalty program with Detsky Mir**

## Store Format

- 200sqm total/170sqm selling area
- At shopping center or street retail, close to a chain food retailer
- Store capex of RUB3.6m



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## Our investment story

# Detsky Mir – leading specialized children's goods retailer in Russia



Undisputed market leader in children's goods retail market in Russia with significant growth potential in online

1



Category-defining brand with highly popular customer proposition

2



Omni-channel model enhanced by strong infrastructure backbone geared up for future growth

3



Well-defined growth strategy diversified across multiple avenues  
a) e-Commerce; b) whitespace c) LFL / traffic generation

4



Asset-light cash-generative business model providing for strong returns on capital and consistent dividend payments

5



Strong management team with well-established public market-oriented governance practices

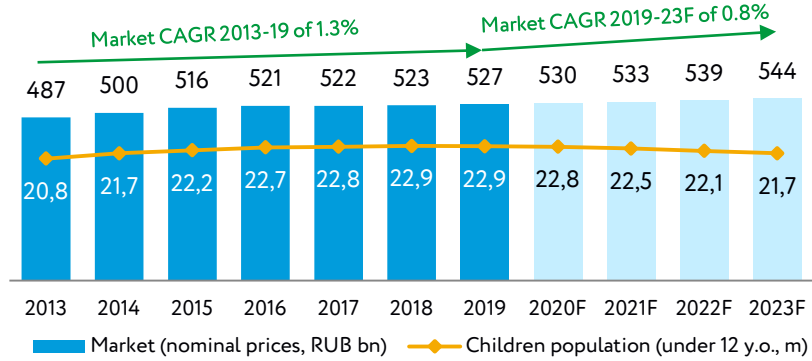
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# Undisputed market leader in children's goods retail market in Russia with significant growth potential in online



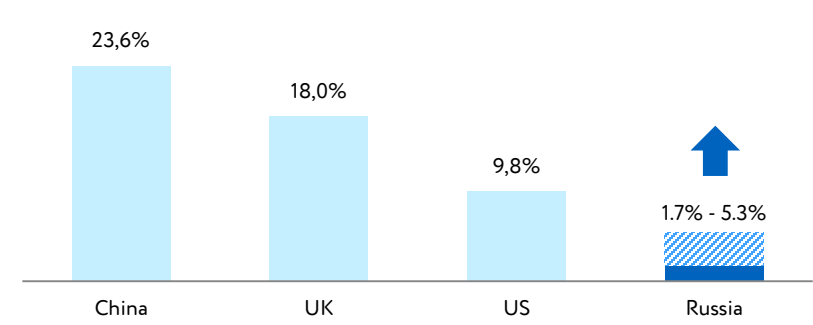
## Large and stable market

Russian children's goods market and children population<sup>1</sup>



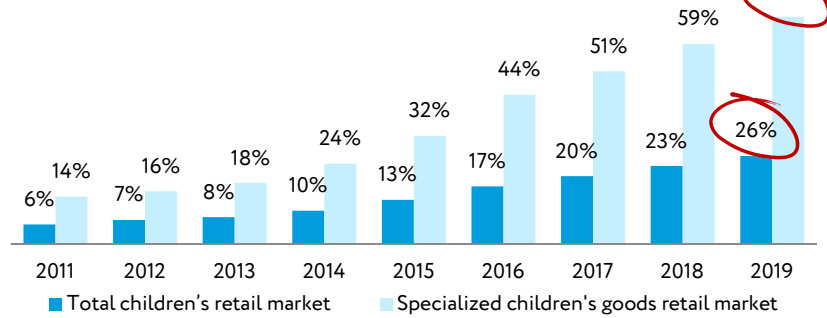
## Low penetration of online retail driving future growth

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 (%)<sup>1</sup>



## ... and has potential to further consolidate this fragmented market

Structure of children's goods retail market in Russia in 2018 (%)<sup>1</sup>



Source: Company data, Ipsos Comcon report, National statistical institutes of China, the UK and the USA, Rosstat, AKIT  
<sup>1</sup>Market size calculated as sales in retail prices (including VAT) in the Russian Federation in cities with over 100k population.

# Category-defining brand with highly popular customer proposition

## Leading customer proposition

### Brand positioning

Iconic Russian household name with 70-year history  
99% prompted awareness<sup>1</sup>  
92% unprompted awareness<sup>1</sup>

### Product offering and convenience

One-stop-shop across key children's categories  
Product offering of ~20,000 SKUs for a typical store and ~50,000 SKUs for online  
Fast fashion (8 seasons)  
Full omni-channel model with convenient delivery options  
Convenient locations in high foot traffic areas

### Attractive pricing and promotions

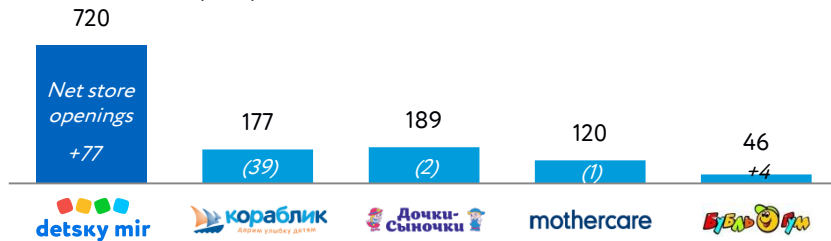
Price segment from medium to medium-low  
We aim to offer highly competitive pricing in baby food and hygiene products  
Periodic sales and promotions

### Loyalty program

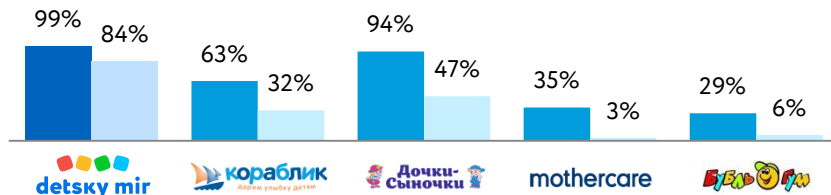
c.24.7m loyalty cards (c.10.6m active loyalty cards<sup>2</sup>)  
c.14.9m contact base of users as of March 2020  
Average ticket for loyalty card holders is significantly higher vs. customers without cards

## Bigger, better and more recognizable than the competition

Number of stores (2019)<sup>3</sup>



Brand recognition (Aided and Spontaneous awareness, February 2020)



Source: Detsky Mir for Company and peers data; Ipsos Comcon for brand recognition metrics

<sup>1</sup> Based on consumer survey conducted in February 2020

<sup>2</sup> Cardholders who made at least one purchase at Detsky Mir during the last 12 months to 31 March 2020 are considered active

<sup>3</sup> Excluding Kazakhstan and Belarus; excluding ELC&ABC and Zozavr stores

<sup>4</sup> Retail revenue only

## Well-balanced product mix across traffic generators and high-margin products

Product segment	Gross margin	Traffic generation	Revenue breakdown <sup>4</sup> (2019)
Newborns	✓	✓ ✓ ✓	31%
Toys	✓ ✓	✓ ✓	32%
Fashion	✓ ✓ ✓	✓	27%
Large items and other	✓ ✓	✓ ✓	10%

# Omni-channel model enhanced by strong infrastructure backbone geared up for future growth



## Multi-regional network with diverse set of store formats

- 846 stores located in 297 cities across Russia, Kazakhstan and Belarus as of 31-Mar-20
- Various Detsky Mir store formats (from 600 sqm to over 2,000 sqm) allowing flexible roll-out
- Pilot phase of a new compact format Detmir Pickup (150 sqm) that combines an offline store and a pick-up point



## E-commerce platform with multiple client touchpoints

- Access to online store via website (desktop, tablet, mobile) and full-feature mobile app
- #1 web-site in the world in Childcare category
- In-store pick-up service (90% of online orders) and courier delivery (10%)



## Developed distribution infrastructure

- Two modern DCs located in Moscow region with total area of 132.5k sqm
- Launch of new DC in South Federal District to support last-mile delivery roll-out
- New c.60k sqm DC to be launched in Ural region in 2021



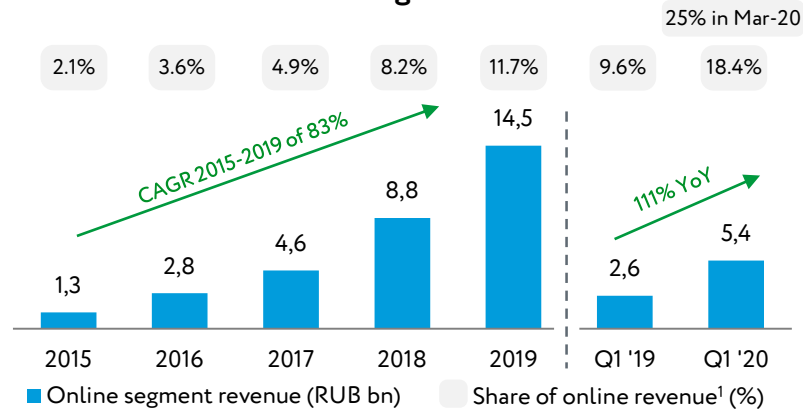
## Integrated IT system

- Established SAP system managing inventory balances
- IT infrastructure is able to support up to 1,200 Detsky Mir stores with in-store pick-up function

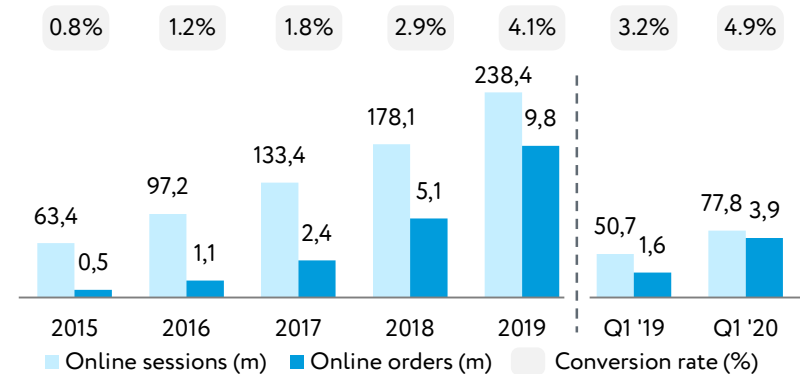


# e-Commerce: continuous growth and improved conversion underpinned by superior customer proposition

## Accelerated online revenue growth









## Continued growth in traffic and substantial improvement in conversion rates...



## Market position and growth

## Direct delivery<sup>2</sup>

	Market share in total children's goods retail in Russia (% , 2019)	Online revenue growth (% , 2019)	Market share in online children's goods retail in Russia (% , 2019)	Price (RUB)	Time	Free of charge in-store click and collect
	26%	64%	19%	free / free <sup>3</sup>	6 h. / 1 day <sup>3</sup>	1 hour 95% of orders
	5%	30%	4%	199	3 days	1 hour
	8% <sup>4</sup>	81%	51%	free	3 days	na
2018 	4%	0%	3%	na	Na	1 hour
	2% <sup>4</sup>	115%	15%	249	1 day	na
	1% <sup>4</sup>	19%	4%	340	2 days	na

Source: Company data for Detsky Mir, Ipsos Comcon data for peers and Detsky Mir market shares, companies websites for direct delivery and in-store pick-up terms

<sup>1</sup>As % of total revenue in Russia

<sup>2</sup>Delivery terms in selected city in Russia with population of 1.0-1.5m for diapers set in price range of RUB 1,900-2,500 as indicated on each website during 2-3pm Moscow time on 31-Mar-20

<sup>3</sup>Same-day (up to 6 hours) delivery is provided in 17 major cities in Russia (c.50% of covered geographies by product turnover), next-day delivery is provided in 30 major cities in Russia (c.80% of covered geographies by product turnover)

<sup>4</sup>Estimated as share of online sales volume in total size of children's goods retail market

# e-Commerce: executing ongoing upgrades across all functional pillars



## Completed initiatives



## Ongoing projects



### Assortment

- ✓ Successfully piloting **marketplace (+5,000 SKUs)**
- ✓ Launch of full-feature **mobile app**

- Launch and development of online marketplace with target **250k SKUs in Fashion (add FMCG in H2'20)**



### Marketing

- ✓ Increasing share of **promos** ↑ **32%** 2018 ↑ **60%** 2019
- ✓ CRM Mindbox

- Further **increase in promos**
- CRM **personalization and segmentation**



### Last-mile Delivery

- ✓ **Express-delivery pilots in 17 cities**
- ✓ Launch of **next-day delivery in 30 cities**

- **90% service level and cost reduction in express delivery**
- **Next-day delivery promotion and development in 30 cities**



### Warehouses

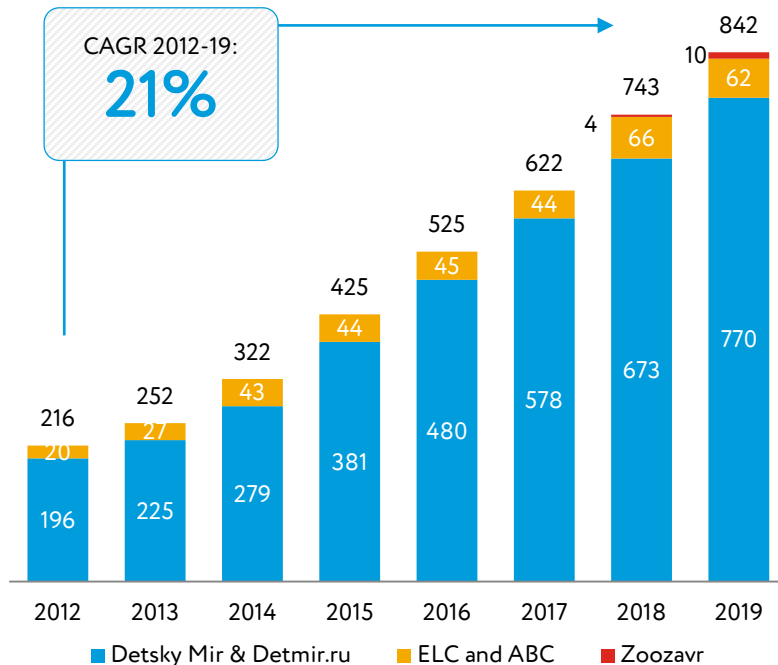
- ✓ **Reduction in fulfilment costs since 2017** ↓ **2.5x**
- ✓ **Convergence of offline and online DCs**

- New Regional DCs and dark stores as logistics backbone for **next-day delivery roll-out**

# Whitespace potential: major opportunity in smaller cities, CIS expansion and new formats

Taking over whitespace in large and small cities as well as international markets

## Number of stores (incl. ELC, ABC and Zoozavr)



### Active international expansion in CIS countries

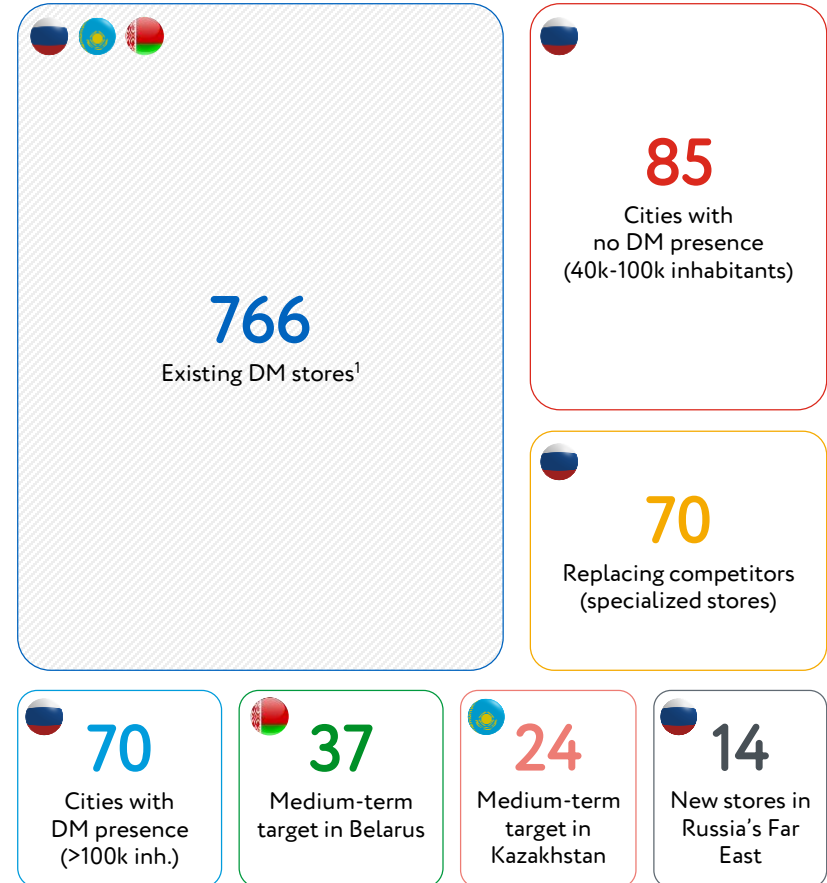
- Successfully entered Belarus with 8 stores opened
- Expanded to new cities in Kazakhstan (+36% y-o-y LFL sales in 2019)
- Entering the Kyrgyz market in 2020

### Continued regional expansion

- Opened 10 stores in Russia's Far East

## At least 300 new DM stores in 2020-23 with IRR >40%

Visible expansion pipeline (number of stores)



New Detmir Pickup store format with total market capacity of **2,000** stores

# Well-defined growth strategy diversified across multiple avenues: **focus on traffic generation**

Invest purchasing power into competitive pricing and effective merchandising with focus on traffic generating categories and private labels to drive strong LFL sales growth and growing gross profit per sqm

## Competitive pricing

- ✓ "Mid" to "mid-" prices
- ✓ Highly competitive pricing in traffic-generating categories
- ✓ Discounts and loyalty programs

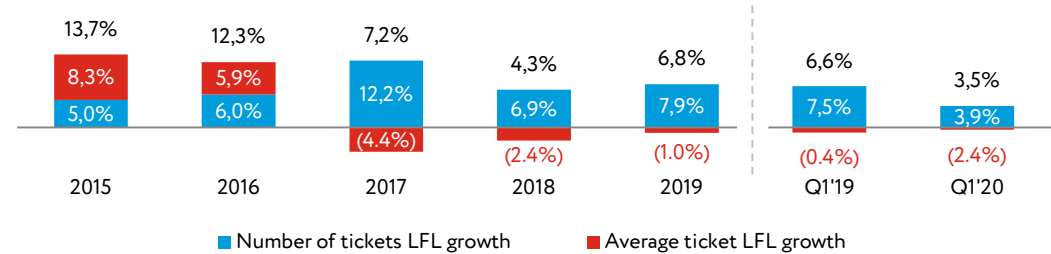
## Active development of private label

- ✓ Growing the share of private labels and direct imports across all main product categories
- ✓ Focus on toys as key margin-driving category, with mid-term private label/direct imports share target of 30%

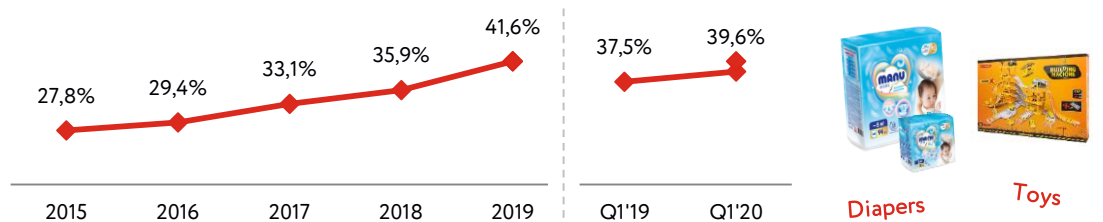
## Effective marketing and merchandising

- ✓ Innovative store concepts based on highly interactive formats
- ✓ Focus on best-in-class customer experience

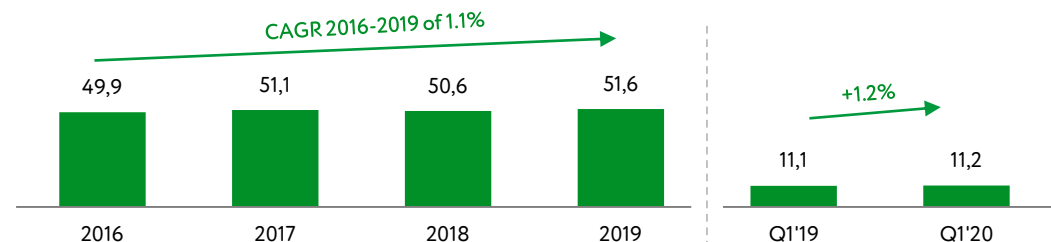
## Strong traffic growth<sup>1</sup>



## Increasing share of private label and direct imports in revenue



## Growing gross profit per sqm (RUB ths)<sup>2</sup>



Source: Company data

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

<sup>2</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)

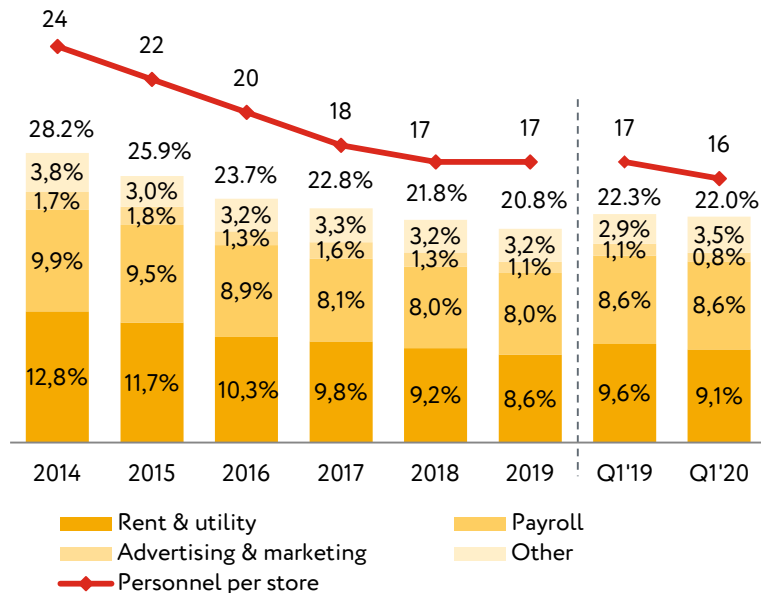
# Focus on execution excellence to achieve superior operating margins

## Improvement of 160bps in adjusted EBITDA<sup>1</sup> margin since 2014 driven by:

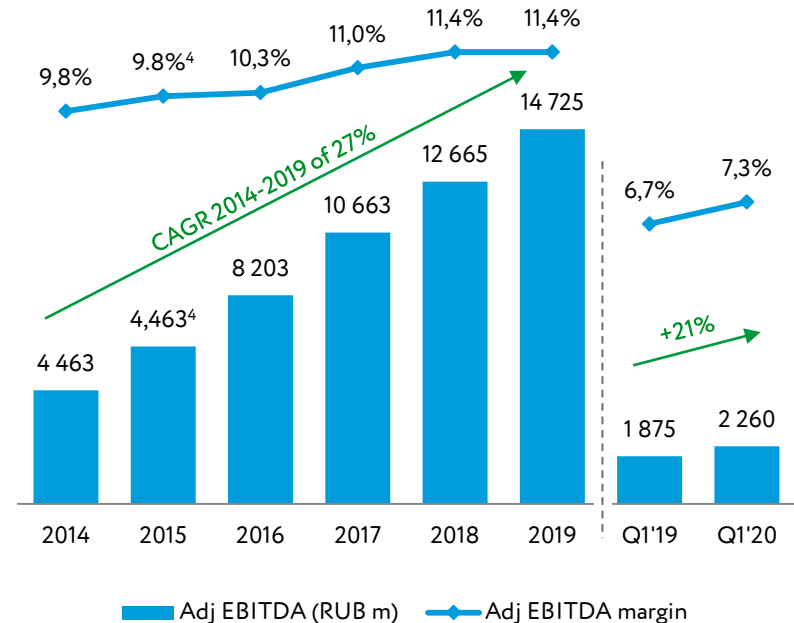
- ✓ Reduction of average personnel per store from 24 in 2014 to 16 in Q1 2020 enabled by greater business processes automation and adoption of advanced software, resulting in reduced time and effort required per transaction
- ✓ Decline in rental costs as % of sales driven by improving sales density and negotiation of favorable rental terms with landlords, supported by our status of "anchor" traffic generator for shopping malls
- ✓ Reduction in adjusted SG&A<sup>2</sup> as % of revenue by over 740bps over 2014-2019 (-30bps YoY in Q1 2020)



## Adjusted SG&A expenses<sup>2</sup> as % of sales and personnel per store<sup>3</sup>



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



Source: Company data

Note: The Group's consolidated financial statements for 2013 under US GAAP and for 2014-2020 under IFRS and as restated according to IAS 17 for 2018-19. For the line items and the periods presented, there was no difference between the figures under US GAAP and IFRS

<sup>1</sup> Adjusted EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, 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

<sup>4</sup> Less one-off RUB 1,164m net gain from disposal of Yakimanka store

# Asset-light cash-generative business model providing for strong returns on capital and consistent dividend payments



## 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 6 months after a store opening
- Payback period of 2.5-3.0 years



## ... supported by well-controlled rental costs

- Prime locations in high-traffic modern shopping malls
- Most rental agreements with right to lease for more than 5 years and fixed annual increases
- Unilateral termination rights for Detsky Mir (with reasonable notice periods)
- Limited currency risk for leased properties (denominated in respective local currencies in Russia, Kazakhstan and Belarus, or with fixed caps for USD and EUR exchange rates)



## Resulting in strong returns ...

	2014	2015	2016	2017	2018	2019
Revenue growth	26%	33%	31%	22%	14%	16%
Selling space growth	22%	26%	21%	15%	12%	10%
Adj. EBITDA <sup>1</sup> , RUB bn	4.5 <sup>2</sup>	6.2	8.2	10.7	12.7	14.7
Capex, RUB bn	(1.9)	(5.3)	(1.7)	(2.5)	(3.8)	(3.5)
<b>Dividends, RUB bn</b>	<b>(1.9)</b>	<b>(3.0)</b>	<b>(4.4)</b>	<b>(4.8)</b>	<b>(6.1)</b>	<b>(7.0)</b>
Adj. net debt <sup>3</sup> / Adj. EBITDA LTM <sup>1</sup>	0.6x	1.7x	1.4x	1.0x	1.4x	1.2x
<b>ROIC LTM<sup>4,5</sup></b>	<b>71%</b>	<b>62%</b>	<b>71%</b>	<b>78%</b>	<b>70%</b>	<b>63%</b>

Source: Companies' disclosure and reporting

Note: The Group's consolidated financial statements for 2013 under US GAAP and 2014-2020 under IFRS (before IFRS16). For the line items and the years presented, there was no difference between the calculation of numbers or presentation under US GAAP and IFRS

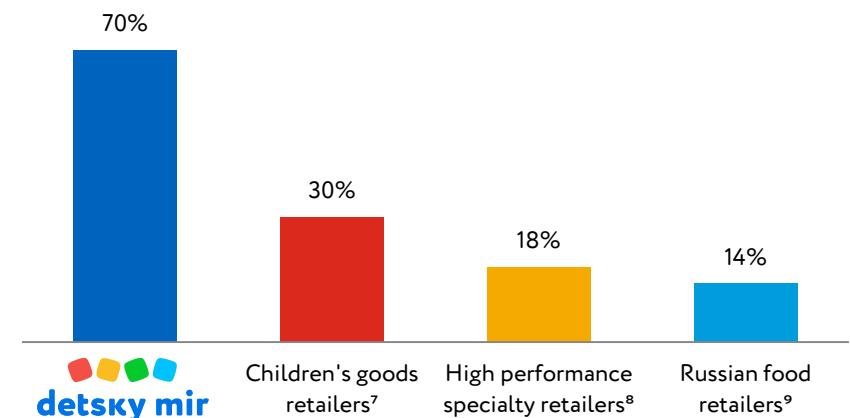
<sup>1</sup> Adj. EBITDA is calculated as profit for the year before income tax, FX gain/loss, gain on acquisition of controlling interest in associate, impairment of goodwill, net finance expense, D&A, adjusted for the one-off effect relating to disposal of the Yakimanka building in 2014, as well as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

<sup>2</sup> Less RUB 1,164m net gain from disposal of Yakimanka store

<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" (RUB 5.2bn in 2014, RUB 5.8bn in 2015 and RUB 1.1bn in 2016)

## ... and a leading ROIC<sup>4</sup> in global retail context

CY 2018<sup>6</sup>, median values for respective peer groups



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

<sup>5</sup> Adjusted for amounts receivable under the loan issued to CJSC "DM-Finance" in 2014, 2015 and 2016; as well as for net book value of the building occupied by the Bekasovo distribution center of RUB 3.1bn (for 2015 only, given it was completed in 2015, but was not operational for the most of 2015)

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

<sup>7</sup> Five Below, Children's Place, Carters, Jumbo and Baby Bunting

<sup>8</sup> Clicks, Lojas Renner, LPP, CCC, Raia Drogasil, B&M, Liverpool and XXL

<sup>9</sup> X5, Magnit and Lenta

# Strong management team with well-established public market-oriented governance practices

## Highly experienced management



13 7

**Maria Davydova**  
*CEO*

Held senior positions at Enter Svyaznoy, Arbat Prestige



13 13

**Anna Garmanova**  
*CFO*

Held senior positions at Podruzhka, Understanding and Reconciliation Fund



16 8

**Farid Kamalov**  
*COO*

Held senior positions at MediaMarkt, Korablik, M.Video



19 5

**Konstantin Frischberg**  
*Commercial Director – FMCG*

Held senior positions at Enter, Wikimart, Samsung Electronics



14 6

**Tatyana Mudretsova**  
*Marketing Director*

Held senior positions at Osnova Telecom, Beeline, DDB and Publicis



19 8

**Maria Volodina**  
*Commercial Director – Apparel and Footwear*

Held senior positions at Sela, Reebok Rus, Kira Platinina, TJ Collection



23 4

**Pavel Pischikov**  
*E-Commerce Director*



Held senior positions at Dochki-Sinochki ("Daughters and Sonnies") and X5 Retail Group



20 8

**Vyacheslav Mikhnenko**  
*Logistics Director*

Previously Operational Logistics Director at X5 and Chief Logistics Officer at Kopeika

 Years of sector experience  Years with Detsky Mir

## Management incentive programs

- IPO LTI program completed in Feb 2020
- New LTI program adopted by the Board for the period of 2020-2023
- New programme based on the same principles – c. 20 key employees; payout up to 4.6% of total shareholder return (growth in market capitalization + dividends) over the life of the programme

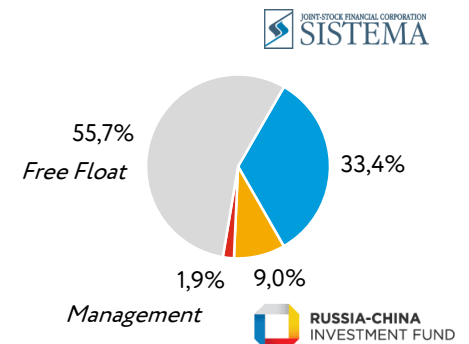
## Strong governance framework

BoD of 10 members  
including 3 INEDs

Audit, Strategy, and Nomination and  
Remuneration committees

Audit, as well as Nomination and  
Remuneration committees are  
chaired by INEDs

## Prominent shareholder base



4

## Recent financial performance



## Recent performance (April 2020)

- The lockdown in Russia and Kazakhstan has been effective since end of March
- Detsky Mir is Systemically Important Company to Russia
  - The Russian government approved a 23-category-strong list of non-food essentials incl. diapers and baby care products
- 90% of Detsky Mir stores remain open in Russia (100% in Belarus)
  - 83 temporarily closed stores (mostly in large malls)
- 36 Detsky Mir stores have been temporarily closed in Kazakhstan
  - 12 pickup points launched at closed lactations for online store
- Group sales decreased by 33% YoY in first 27 days of April (-19% YoY last week)
- Online sales growth reached 3.5x in first 27 days of April with a 41% online share
  - 77% of in-store pickup service in total online sales
- Products for newborns are strong performers with a 41% share of total sales

## Management response to COVID-19 pandemic

- Safety first and remote work (secured stocks of protective equipment, intensive disinfection of all premises, introducing contactless delivery service)
- Logistic and IT infrastructures are ready to double the share of online sales
- Ensuring the adequate inventory (additional purchases for RUB 5 bn in Jan-Feb)
- Chinese producers resumed work at the beginning of March
- Zero rental costs for closed stores, as well as successfully negotiating rental discounts proportional to the traffic decrease
- Adjusting retail staffing levels to sales (70% of variable part in salaries)
- 80% of goods produced abroad / 30% direct import – fully hedged for next 3m
- Refinancing of the short-term debt of RUB 11bn (extended for another 12m) with RUB 10bn of immediately available cash and cash equivalents in case of longer lockdown
- No material changes in Capex (most of 2020 openings would take place in Q4)

Source: Company data

Note: The Company's consolidated financial measures for 2019-2020 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

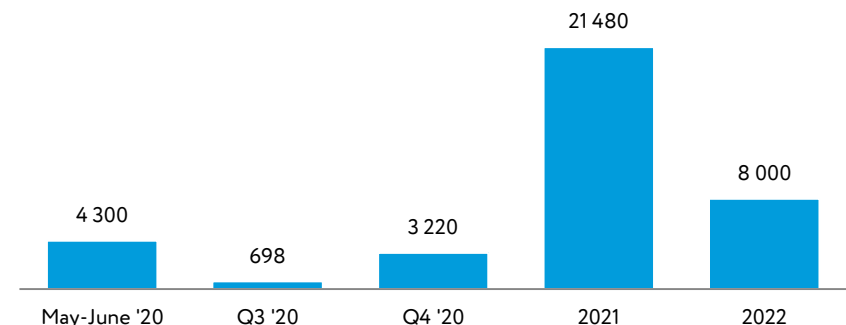
<sup>1</sup> Includes five Detmir Pickup stores

## Breakdown of Detsky Mir closed stores (COVID-19)



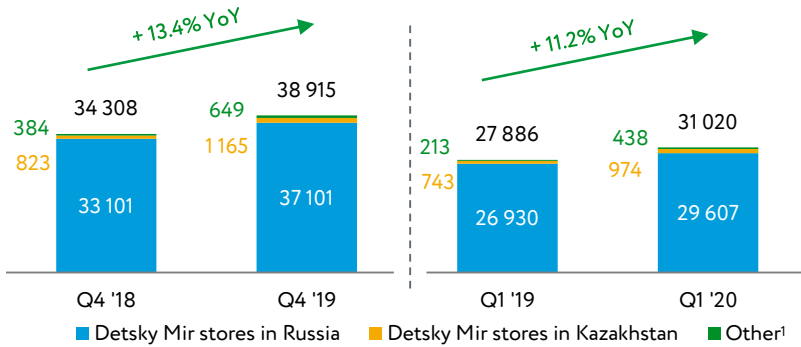
## Debt maturities as of 30 April 2020 (RUB m)

Total debt – RUB 37.7bn (of which immediately available cash and cash equivalents – RUB 10.5bn)  
 On demand undrawn credit lines – RUB 17.0 bn from 1<sup>st</sup> class banks  
 The proceeds of RUB 3bn from the recent issued bond will be received on 7<sup>th</sup> May

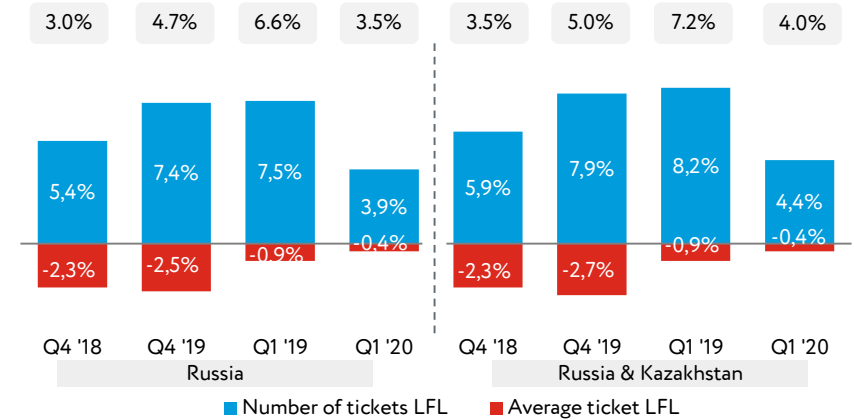


# Continued Solid Top-Line Growth

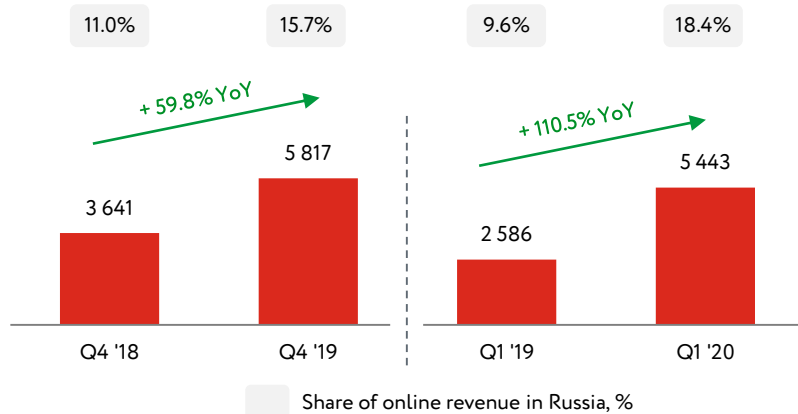
## Total revenue (RUB m)



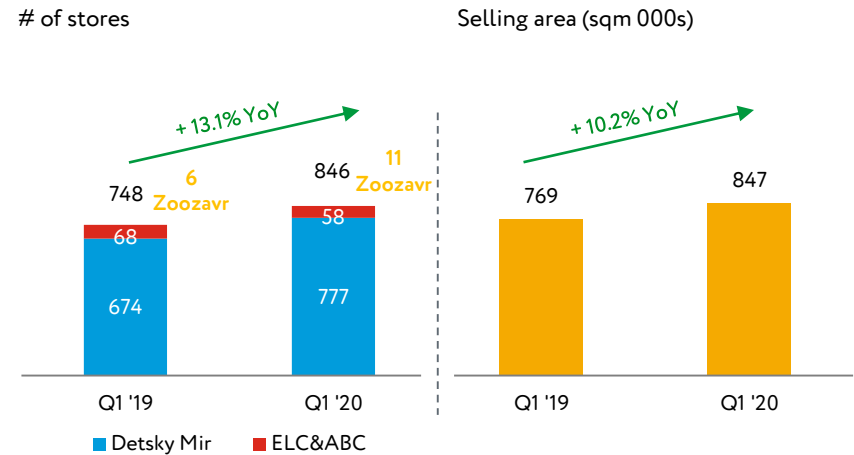
## Like-for-like sales growth



## E-commerce revenue (RUB m)



## Retail chain



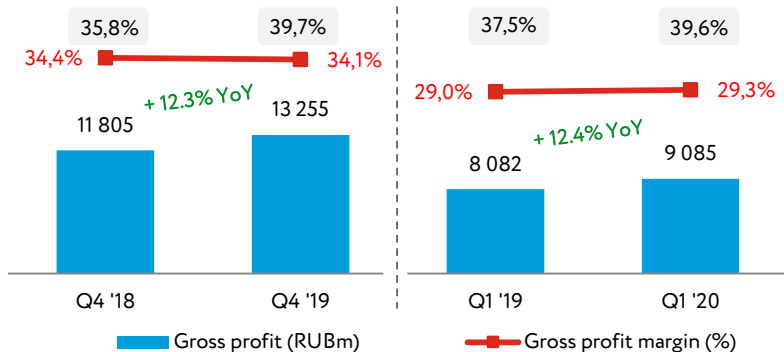
Source: Company data. The Company's consolidated financial measures for 2019-2020 and related interim periods are based on proforma financial information prepared as if IFRS 16 'Leases' had not been adopted, and thus do not represent IFRS measures.

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

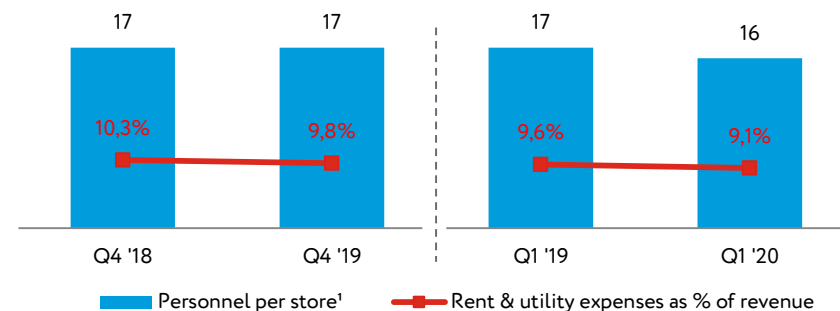
# Consistently strong profitability

## Strategic investment of margin in price leadership ...

Private label a& direct imports, % of Revenue

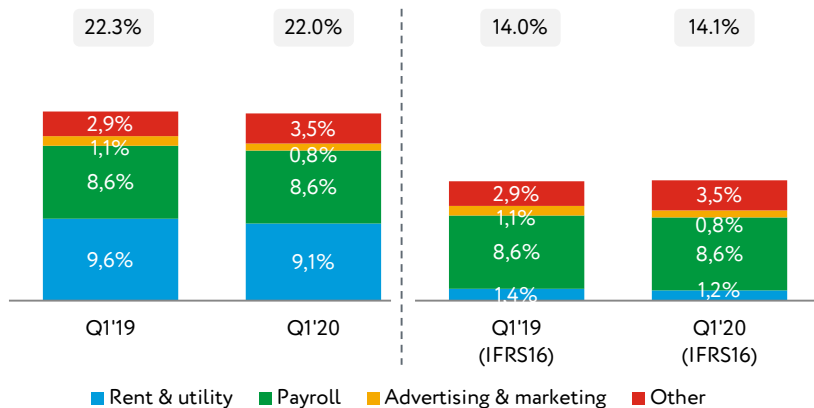


## ... is offset by gradual optimization of store personnel and reduction of rental costs ...

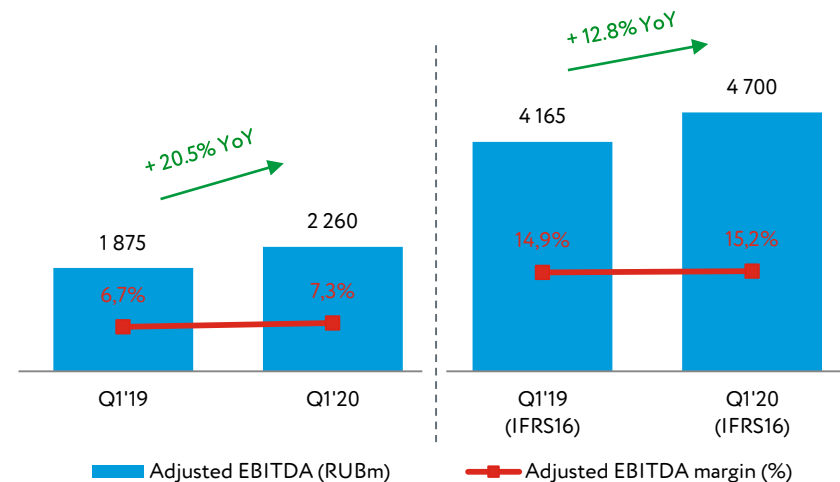


## ... along with consistently declining SG&A expenses (as % of revenue) ...

Adjusted SG&A Expenses<sup>2</sup> as % of Revenue



## ... resulting in consistently strong profitability



Source: Company data. The Company's consolidated financial measures for 2019-2020 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.

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

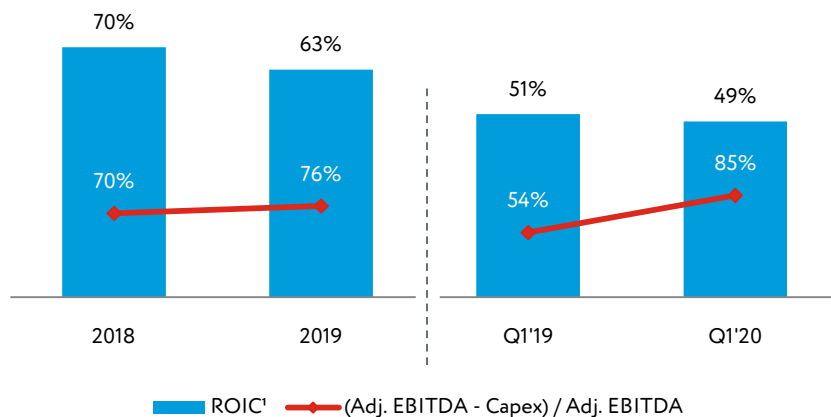
<sup>2</sup> Hereinafter, adjusted selling, general and administrative expenses is calculated as selling, general and administrative expenses adjusted for depreciation and amortization expenses, additional share-based compensation expense and cash bonuses under the LTI program.

# Strong cash flow conversion

## Comments

- Strong cash conversion (Adj. EBITDA - Capex / Adj. EBITDA) driven by high level of ROIC
- Increase in NWC significantly affected the decline in the Operating Cash flow:
  - Additional goods purchased to mitigate FX risks (RUB depreciation in March) with net effect of RUB 3 bn on NWC
- Decrease in financing expense on the back of the low debt at the beginning of the year
- 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)

	2018	2019	Q1 19	Q1 20	Q1'19 IFRS 16	Q1'20 IFRS 16
Adjusted EBITDA	12,666	14,725	1,875	2,260	4,165	4,700
Changes in NWC	(7,156)	(132)	(4,944)	(7,661)	(4,742)	(7,597)
Cash income taxes paid	(1,083)	(1,696)	(657)	(702)	(657)	(702)
Net finance expense paid	(1,624)	(2,023)	(437)	(179)	(1,446)	(821)
Other operating cash flow	688	348	187	(79)	186	(81)
<b>Operating cash flow</b>	<b>3,489</b>	<b>11,222</b>	<b>(3,976)</b>	<b>(6,361)</b>	<b>(2,494)</b>	<b>(4,501)</b>
<b>CAPEX</b>	<b>(3,793)</b>	<b>(3,507)</b>	<b>(863)</b>	<b>(338)</b>	<b>(863)</b>	<b>(338)</b>
DC construction	(1,825)	(449)	(194)	(28)	(194)	(28)
Store openings, IT & maintenance <sup>2</sup>	(1,968)	(3,058)	(669)	(310)	(669)	(310)
<b>Free cash flow</b>	<b>(303)</b>	<b>7,715</b>	<b>(4,839)</b>	<b>(6,699)</b>	<b>(3,357)</b>	<b>(4,839)</b>
Investment cash flow	(3,794)	(3,467)	(855)	(326)	(855)	(326)
Financial cash flow	483	(9,322)	2,836	(15,754)	1,354	13,894
<b>Change in cash</b>	<b>180</b>	<b>(1,567)</b>	<b>(1,996)</b>	<b>9,067</b>	<b>(1,996)</b>	<b>9,067</b>

Source: Company data

Note: The Company's consolidated financial measures for 2019-2020 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

<sup>1</sup> 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);

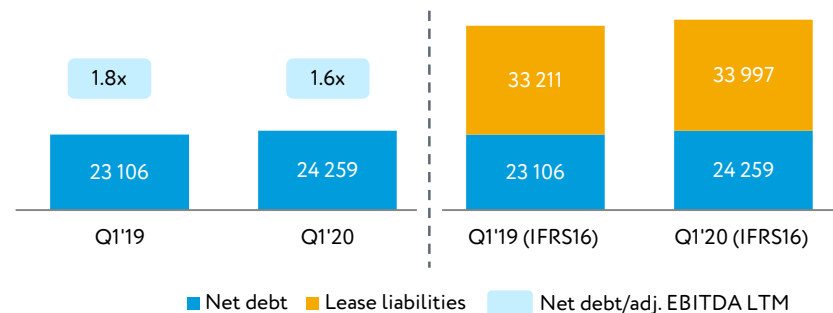
<sup>2</sup> In 2019, the increase in capital expenses was driven by a RUB 844m payment (net of VAT) for the acquisition of premises for the Company's new flagship store in Moscow

## 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 March 2020 is 1.6 vs. 4.0x average covenant level across the loan portfolio (before IFRS-16)
  - Decreased YoY thanks to NWC optimization
- Weighted average interest rate<sup>1</sup> – 8.5% (as of Q1 2020)
- Most of the debt has fixed interest rate
- No contingent off-balance sheet liabilities
- Available undrawn credit limit of RUB 22.5bn for refinancing of the current credit portfolio aiming at its further diversification and cost reduction

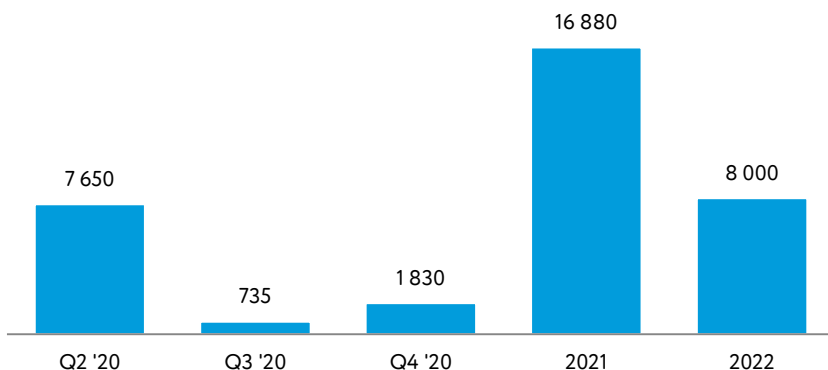
## Leverage

- Q1 2020 total debt – RUB 35.1bn

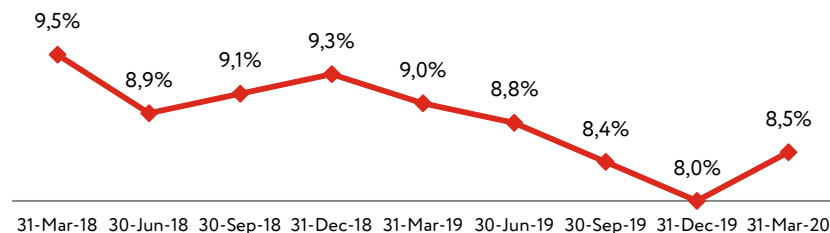


## Debt maturities (31 March 2020)

(RUB m)



## Weighted average interest rate<sup>1</sup> (%)



Source: Company data

Note: The Company's consolidated financial measures for 2019-2020 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

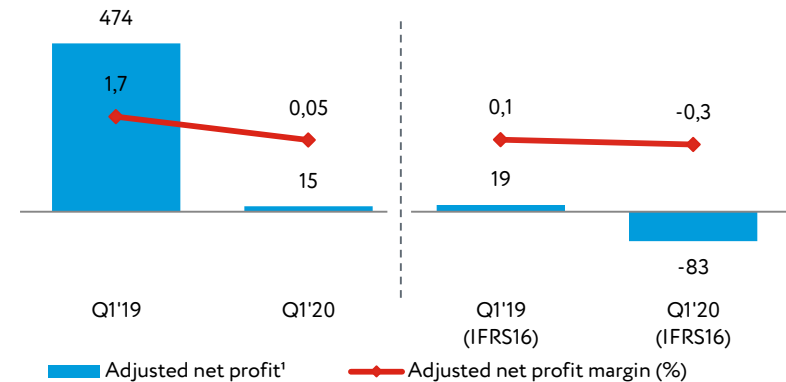
<sup>1</sup> Calculated on the basis of the weighted interest rates applying to the specified indebtedness (weighted by the principal amount of such indebtedness) as of the dates specified

# Sustainably high returns to shareholders

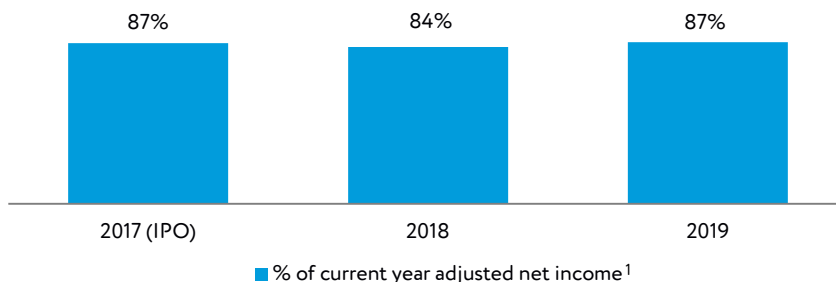
## Comments

- 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 FY2018 of RUB 3.3bn in Q2 2019, as well as interim dividends for 9m 2019 of RUB 3.7bn in Q4 2019
- Unrealized FX losses of RUB 1,3bn affected adjusted net losses in Q1 2020

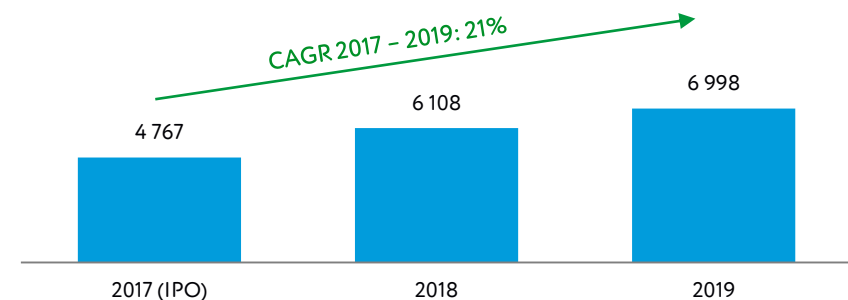
## Adjusted net income (RUB m)<sup>1</sup>



## Dividends as % of adjusted net income



## History of declared dividends (RUB m)



Source: Company data

Note: The Company's consolidated financial measures for 2019-2020 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

<sup>1</sup> 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

	Previous guidance (5 March 2018, updated 7 November 2019)	2019 actual	New guidance
Store count	<ul style="list-style-type: none"> <li>At least 100 new stores in 2019</li> <li>At least 300 stores in 2020-23</li> </ul>	<ul style="list-style-type: none"> <li><b>101</b> new stores</li> </ul>	<ul style="list-style-type: none"> <li>80 stores in 2020 (mostly opened in Q4)</li> <li>At least 300 stores in 2020-23</li> </ul>
Revenue	<ul style="list-style-type: none"> <li>Single-digit LFL growth ahead of the market, positive traffic, below inflation ticket, puts new store ramp-up effects</li> <li>Online revenue to increase to 30% of total revenue</li> </ul>	<ul style="list-style-type: none"> <li><b>7.2%</b> total LFL growth, <b>8.5%</b> ticket</li> <li><b>16.1%</b> total revenue growth</li> <li>Share of online sales at <b>11.2%</b></li> </ul>	<ul style="list-style-type: none"> <li>Same guidance for 2021-2023</li> <li>2020 Guidance will be updated after Q2 due to COVID-19 outbreak</li> </ul>
Gross margin	<ul style="list-style-type: none"> <li>Slightly declining to stable reflecting investment in prices to drive traffic</li> </ul>	<ul style="list-style-type: none"> <li><b>32.3%</b> vs <b>33.2%</b> in 2018</li> </ul>	<ul style="list-style-type: none"> <li>Same guidance for 2021-2023</li> <li>2020 Guidance will be updated after Q2 due to COVID-19 outbreak</li> </ul>
Rent, utility & personnel expenses	<ul style="list-style-type: none"> <li>Slightly declining to stable as % of revenue</li> </ul>	<ul style="list-style-type: none"> <li>Rent &amp; utility expenses of <b>8.6%</b> vs <b>9.2%</b> in 2018</li> <li>Personnel expenses margin <b>unchanged</b> since 2018 (at 8.0%)</li> </ul>	<ul style="list-style-type: none"> <li>Same guidance for 2021-2023</li> <li>2020 Guidance will be updated after Q2 due to COVID-19 outbreak</li> </ul>
Adjusted EBITDA margin	<ul style="list-style-type: none"> <li>Double-digit under IAS17</li> </ul>	<ul style="list-style-type: none"> <li><b>18.5%</b> vs <b>19.0%</b> in 2018 under IFRS16</li> <li><b>11.4%</b> vs <b>11.4%</b> in 2018 under IAS17</li> </ul>	<ul style="list-style-type: none"> <li>Upper-teens under IFRS16 as well as Double-digit under IAS17 for 2021-2023</li> <li>2020 Guidance will be updated after Q2 due to COVID-19 outbreak</li> </ul>



detsky mir

Appendix

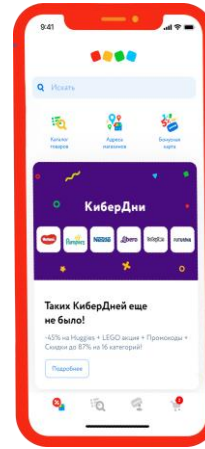
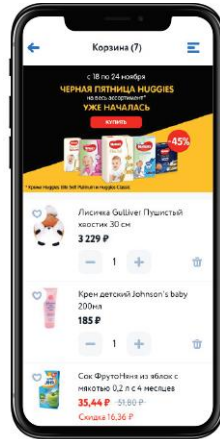




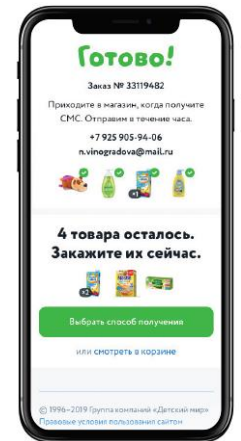
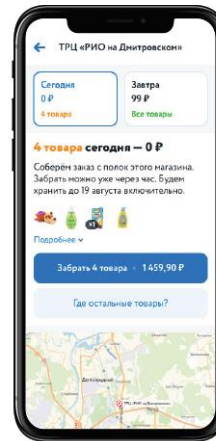
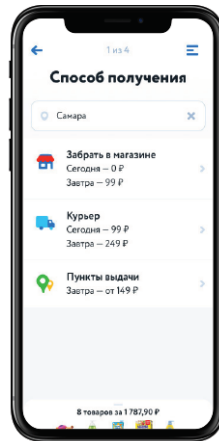
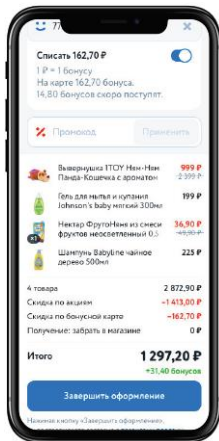
# “Mobile First” concept

All of Detsky Mir in your phone

## Search & Select

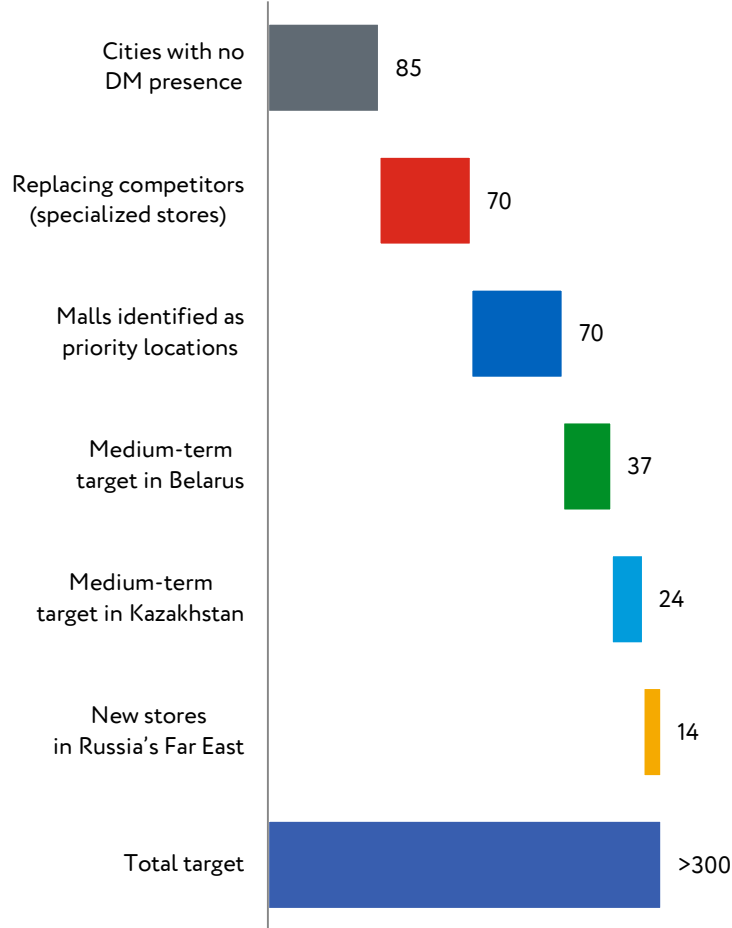


## Ordering & Delivery



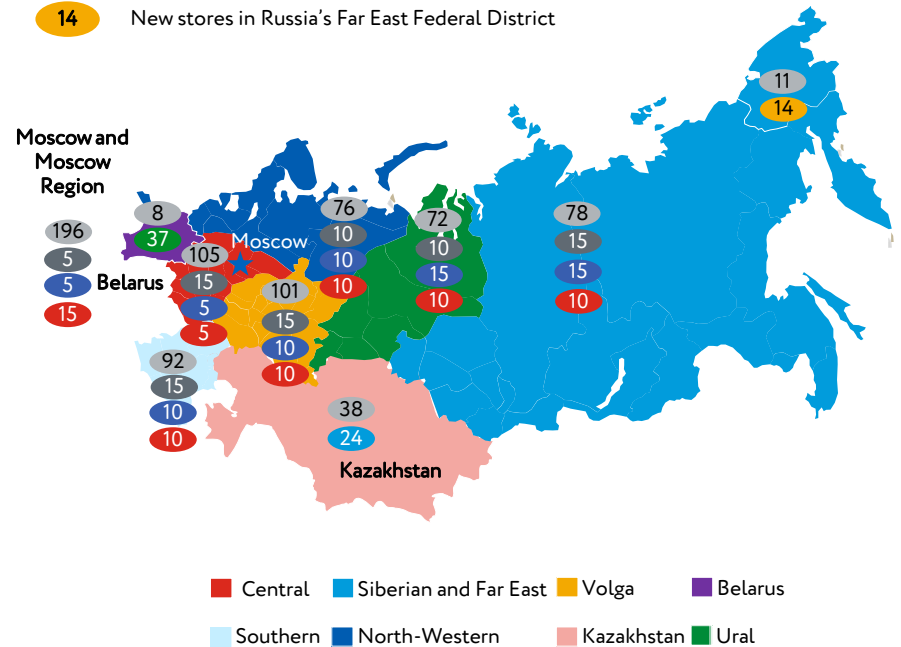
# Detsky Mir stores expansion pipeline

## Target store rollout for 2020-2023 (based on 40% IRR target)



## Geographical location

- 766<sup>1</sup> 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

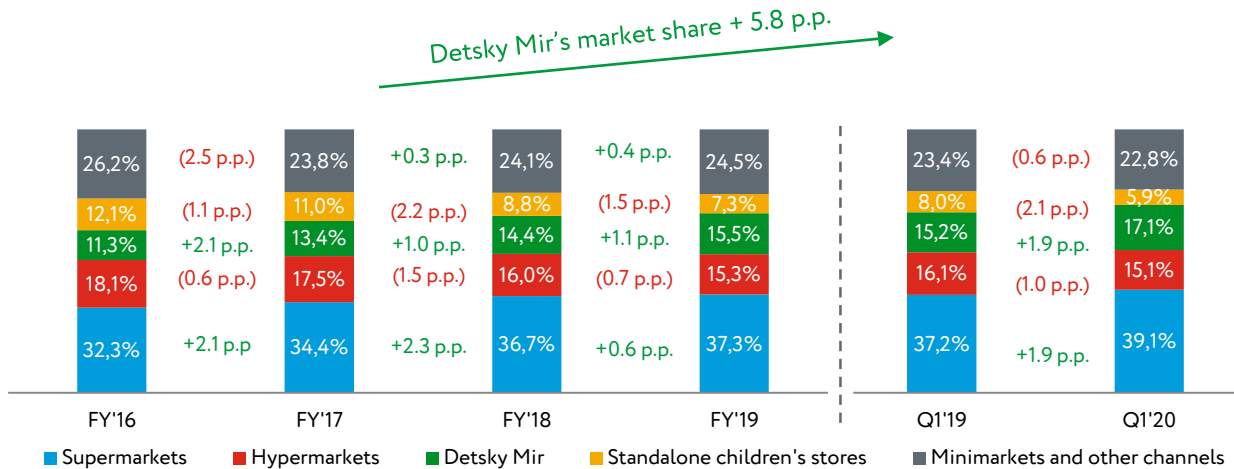


Source: Company data

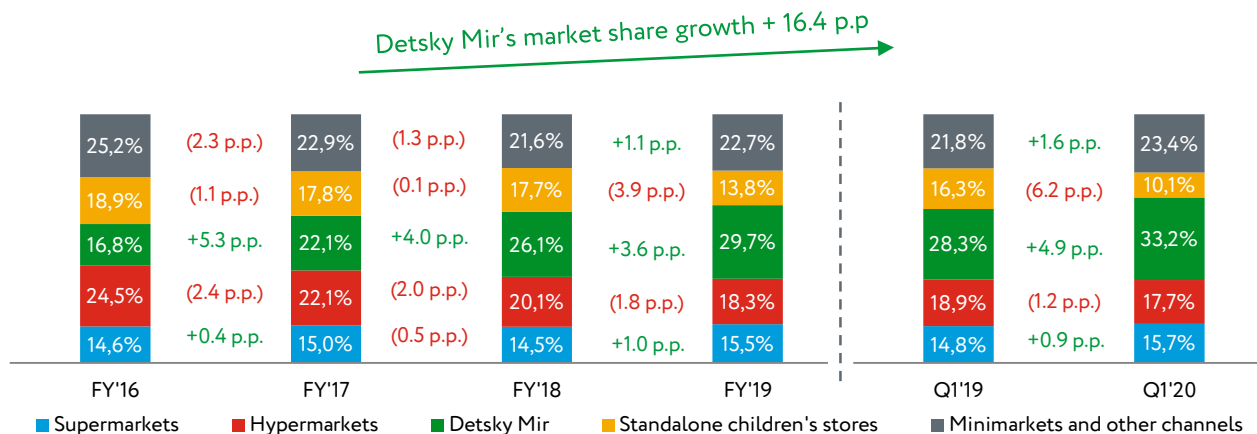
<sup>1</sup> Only Detsky Mir branded stores as of 31-Dec-19

# Case study: gaining market share in baby food and diapers sales

## Baby food sales by channel in Russia



## Diapers sales by channel in Russia



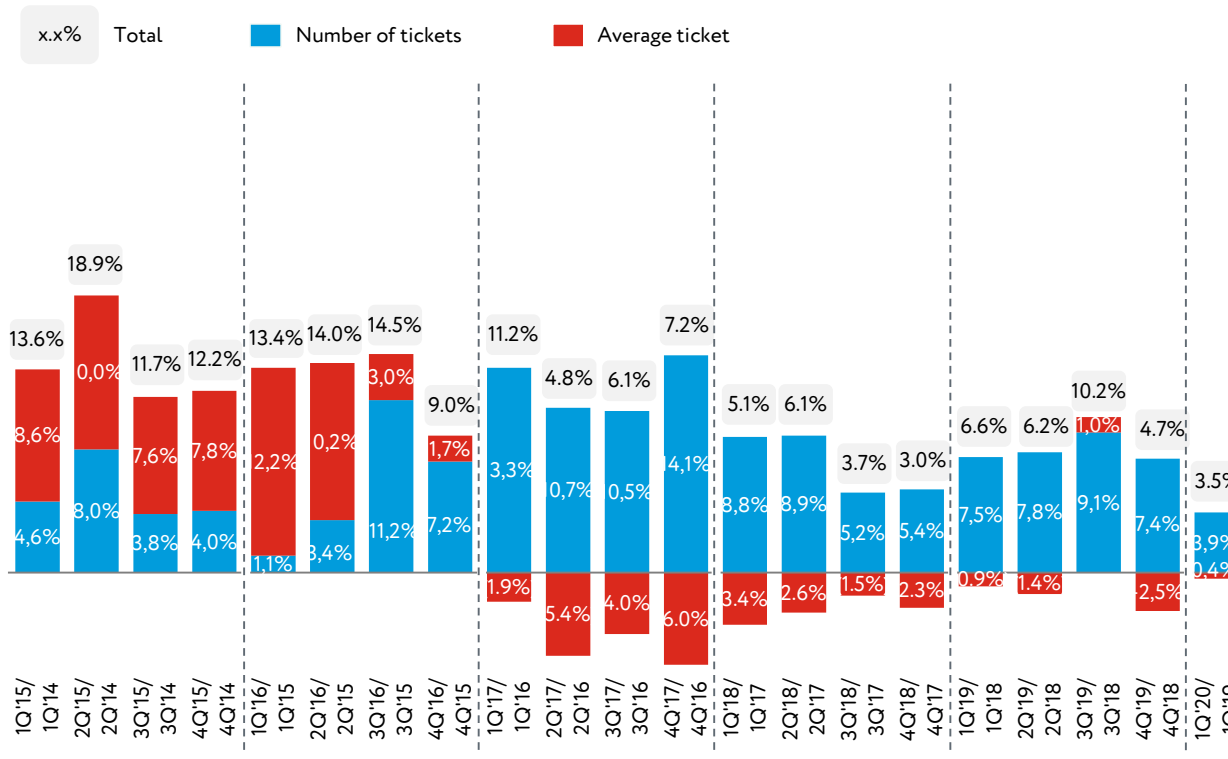
## Comments

- 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 190bps YoY to 17.1% in Q1 2020
- Detsky Mir's diapers market share increased by 490bps YoY to 33.2% in Q1 2020

Detsky Mir's share of the diapers market increased by 2.0x over several years

# Robust like-for-like performance

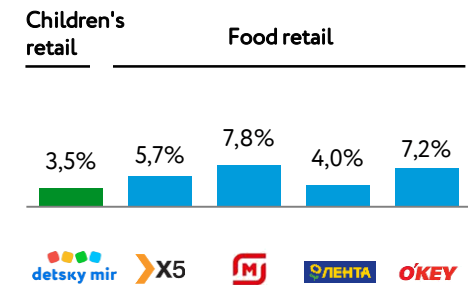
## Like-for-like revenue growth



## 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 Q1 2020



## 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 (+3.5%) in Q1 2020**

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

# 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%
	<i>incl. Financial<sup>1</sup></i>	25%	4% - 15%	3% - 9%
	<i>incl. Functional<sup>2</sup></i>	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

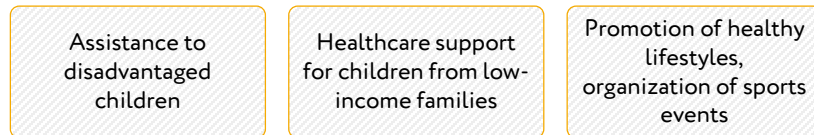
<sup>1</sup> Financial KPIs – EBITDA, net income, revenues

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

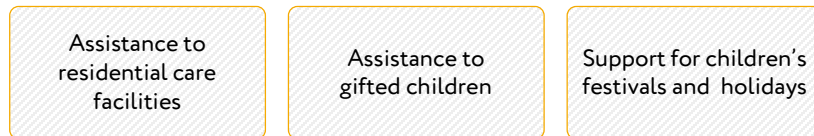
# Sustainable development: focus on social and environmental responsibility

## Charitable activities

### Priority charity areas



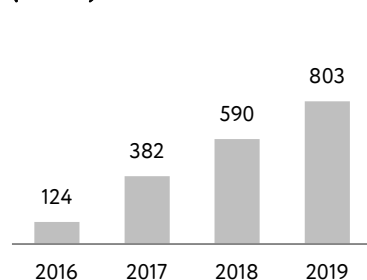
**Cooperation with 1,146 welfare organizations in Russia, Kazakhstan and Belarus (2019)**



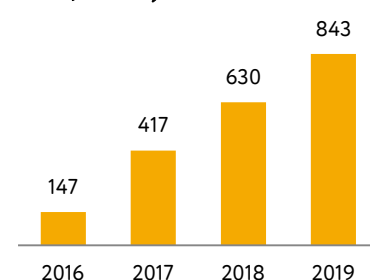
### Charity fund

- Our social activity is implemented by the Detsky Mir Charity Fund ([www.bf.detmir.ru](http://www.bf.detmir.ru)) established in 2004
- Charitable activities are financed from voluntary donations received by the fund, as well as funds allocated from the Company's budget
  - In 2019, DM visitors donated goods of RUB 757m to the fund (Charity Program "Participate!")

**Goods donated to the fund (RUB m)**



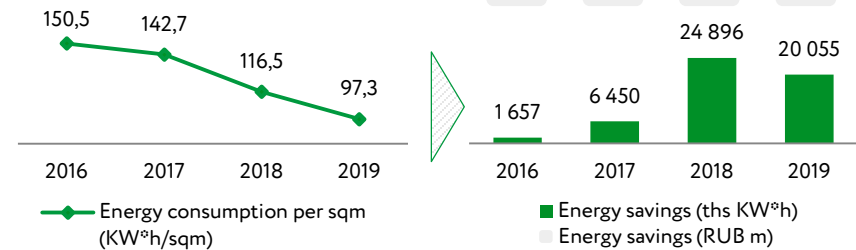
**Charity spending (raised and own funds, RUB m)**



Source: Company data

## Environmental responsibility

### Energy savings



### Ecological consumer packaging

- Sale of paper bags in Moscow and the Moscow Region stores was launched in December 2015 and afterwards scaled up across the entire chain in 2016
  - In 2019, 433 ths (+79% YoY) pieces of paper bags were sold
- Eco-friendly consumer packaging is expected to gradually replace plastic bags, significantly reducing adverse environmental impact



### Waste management




- Since 2014, waste paper and polyethylene packaging films are collected from warehouses
  - Waste is sorted separately and transferred to a specialized organization for further recycling
- In 2015, we introduced projects to collect of waste for recycling from stores
  - In 2019, 370 stores participated in these projects

#### Collection of waste for recycling (2018)




**2,485t cardboard** from distribution centers  
**1,800t cardboard** from stores

# New Government measures to support birth rates and boost disposable income for families with children

## Illustrative impact on the disposable income for families with children

Allowance per child	Before changes	After changes
1 <sup>st</sup> child 	–	RUB 467k
2 <sup>nd</sup> child 	RUB 467k	RUB 150k
3 <sup>rd</sup> child 	–	RUB 450k



1 <sup>st</sup> child 	0.5m	Based on E2020 birth rates and 2018A breakdown
2 <sup>nd</sup> child 	0.6m	
3 <sup>rd</sup> child 	0.2m	



<b>Total program</b>	c.RUB 260bn	c.RUB 440bn
<b>Cumulative incremental funds available</b>	<b>c.RUB 180bn</b>	

## Key highlights and relevance for the children's goods market

- New measures announced in the President's address to the nation on 15 January 2020
  - Approved by the State Duma and the Federation Council on 20 February 2020 and 26 February 2020, respectively
- Strictly defined use of proceeds, overwhelmingly linked to purchases of housing and compensation of mortgage payments
- Nonetheless, significant indirect benefit for the children's market given extension of overall funds available to families
  - Incremental funds available = c. 1/3 of the total children's good market size
- Russian Government expects substantial positive impact of the new measures on the actual birth rates
  - Supporting demographics remains of paramount importance for the Government



## Product key features and future plans

- ✓ Joint private label with largest Japanese diapers producer
- ✓ Premium Japanese quality, mid-price segment
- ✓ Markets: Russia, Kazakhstan, Belarus
- ✓ 10 SKUs  
5 sizes: from Newborn to XL
- ✓ Active promotion campaign through promos and TV ads
- ✓ Plans to add "diapers-panties" in product range in E2020





# Financial performance summary

(RUB m, unless specified otherwise)<sup>1</sup>

	2018	2019	Q1 2019	Q1 2020
<b>Number of stores</b>	<b>743</b>	<b>842</b>	<b>748</b>	<b>846</b>
Detsky Mir and Detmir Pickup	673	770	674	777
ELC, ABC, Zoozavr stores	70	72	74	69
<b>Selling space (k sqm)</b>	<b>768</b>	<b>843</b>	<b>769</b>	<b>847</b>
<b>Revenue</b>	<b>110,874</b>	<b>128,764</b>	<b>27,886</b>	<b>31,020</b>
% total sales growth	14.3%	16.1%	16.1%	11.2%
% LFL sales growth	4.9%	7.2%	6.6%	4.0%
Revenue per sqm <sup>2</sup> (RUB thousand / sqm)	152	160	36	38
Online sales <sup>4</sup>	8,771	14,489	2,584	5,443
Share of online sales in Russia	8.2%	11.7%	9.3%	18.4%
<b>Gross profit</b>	<b>36,829</b>	<b>41,532</b>	<b>8,082</b>	<b>9,085</b>
Margin, %	33.2%	32.3%	29.0%	29.3%
<b>Gross profit per sqm<sup>2</sup></b> (RUB thousand / sqm)	<b>51</b>	<b>52</b>	<b>11</b>	<b>11</b>
Adjusted SG&A	24,116	26,799	6,205	6,826
% of revenue	21.8%	20.8%	22.2%	22.0%
<b>Adjusted EBITDA</b>	<b>12,666</b>	<b>14,725</b>	<b>1,875</b>	<b>2,260</b>
Margin, %	11.4%	11.4%	6.7%	7.3%
<b>Adjusted profit for the period</b>	<b>7,229</b>	<b>8,022</b>	<b>474</b>	<b>15</b>
Margin, %	6.5%	6.2%	1.7%	0.05%
<b>Total debt</b>	<b>21,470</b>	<b>19,250</b>	<b>24,445</b>	<b>35,095</b>
Cash and cash equivalents	(3,335)	(1,769)	1,339	(10,836)
<b>Adjusted net debt</b>	<b>18,135</b>	<b>17,481</b>	<b>23,106</b>	<b>24,259</b>
Adjusted net debt / LTM Adjusted EBITDA	1.4x	1.2x	1.8x	1.6x
<b>Capex</b>	<b>(3,794)</b>	<b>(3,507)</b>	<b>(863)</b>	<b>(338)</b>
% of revenue	3.4%	2.7%	3.1%	1.1%
<b>Dividends declared</b>	<b>6,108</b>	<b>6,998</b>	-	-

## 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)

### Improved Operating Efficiency

- Stable gross margin due to efficient purchases
- Over 400bps improvement in SG&A as % of sales from 2015 to 2019 (-30bps Q1 2020 vs Q1 2019)

### Superior EBITDA Margin

- Major SG&A optimisation measures implemented by the new management team since 2012
- Over 120bps margin increase from 2015 to 2019
- Double-digit EBITDA margin achieved in 2015 and improved in 2016-Q1 2020, 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-March-2020 is 1.6x 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

<sup>1</sup> The Company's consolidated financial measures for 2018-2020 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

<sup>2</sup> Calculated per average space for the period

<sup>3</sup> Online sales (including sales via "in-store pickup" service)

# Contact information



**Sergey Levitskiy**

**Head of Investor Relations**

slevitskiy@detmir.ru

+7 903 971-43-65

**Detsky mir**

+7 495 781-08-08, ext. 2315

detmir.ru