



# Q3 2020 Unaudited Financial Results

Leading specialized children's goods retailer in Russia

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# Q3 2020 Financial highlights

## 1 Accelerated top-line growth

- **Total sales growth** accelerated to **13.5%** in Q3 2020 (over **16% YoY total sales growth** in October)
- **4.4% LFL sales growth** (Russia) in Q3 2020 with **5.9% LFL ticket growth** (**8% YoY LFL sales growth** in October with **4.0% LFL traffic growth**)

## 2 Explosive online sales growth

- **2.4x YoY** online sales growth in Q3 2020 (**2.4x YoY** online sales growth in October)
- Online share grew by **2.1x YoY** to **21.4%** in Q3 2020 (**27%** online share in October)

## 3 Continuous retail chain expansion

- **10 new DM** and **2 new Zoozavr stores** opened in Q3 2020 (**+8.1% YoY** of **selling space**)
- At least **40 new DM stores**, as well as **10 new Zoozavr** and **10 Detmir PUP stores** are expected to be opened in Q4 2020

## 4 Superior EBITDA margin

- Reduced **SG&A cost margin** by **1.2 p.p. YoY** to **17.9%** in Q3 2020
- **Adjusted EBITDA margin** up by **1.2 p.p. YoY** to **13.5%** in Q3 2020

## 5 Strong cash flow conversion

- **Cash conversion** improved for 9M 2020: **89%** vs 73% a year ago
- Decline in **LTM Leverage** to **1.1x** despite **100% dividend payout** and **expected 11% YoY increase in dividend payments in FY 2020**

# Unlocking new growth horizons

## YTD 2020 business highlights

## Drivers of future upside (2021-2024)

Expand omni-channel proposition and enhance UX/CX

- 30 new Detsky Mir stores opened in 9M'20
- Over 80% of online revenue generated via in-store pickup
- New mobile app (>60% of online sales) with 4.2 m downloads
- Enhanced UX: revamped shopping cart, also launching new personal account and Apple Pay and Google Pay features (A/B testing: +15% RPU)

Marketplace to drive assortment breadth

- (1P) assortment expansion: 150k SKUs vs 100k SKUs as of Q4'19
- (3P) successfully piloting marketplace: 55k SKUs vs 5k SKUs as of Q4'19
- Launching a full-featured IT platform for merchants' accounts (first stage of a full scale rollout of marketplace)

Accelerated investment in logistics

- Launching the first Regional DC in the South region (leased 6,000 sq. m)
- Signed a preliminary agreement on opening a second Regional DC in Q2'21 based on Russian Post's fulfillment center (leased 8,000 sq. m)
- Rollouting super-express delivery (up to 2 hours), also launching own delivery service based on an in-house IT platform
- Launched initiative to increase the number of partnership pick-up points (incl. pick-up lockers in food retailers) from 3k to 9k in 1H'21

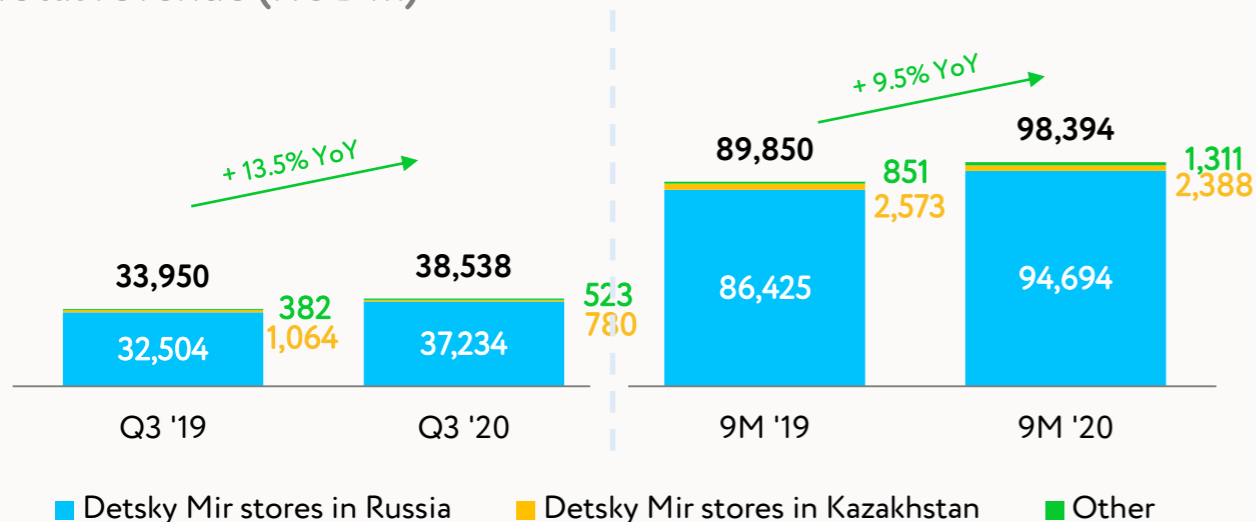
New verticals

- 13 pilot Zoozavr pet supplies stores opened to date: YTD sales are 80% ahead of plan
- Identified the first partners for digital services (next update in 1H'21)

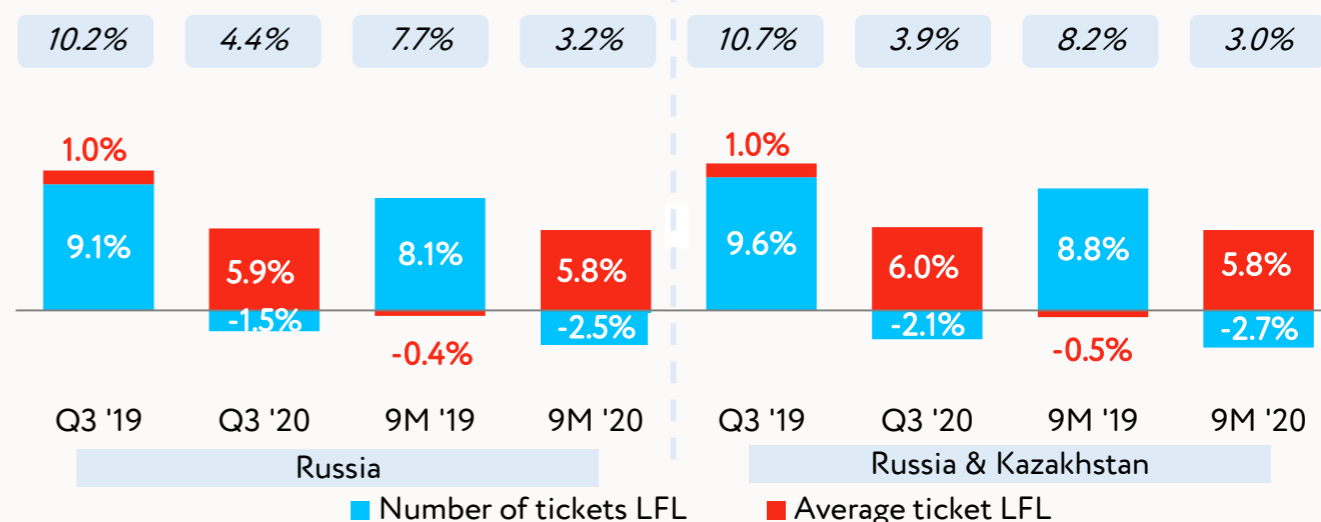
- **300** new Detsky Mir core format stores
- **800** new Detmir Pickup stores
- **45%** share of online sales
- Mobile first concept with **best-in-class app**
- Store digitalisation with **70% NPS** across channels
- **Full scale rollout** of children's goods marketplace
- Leadership in the assortment targeting **2,400k SKUs** (Fashion and FMCG)
- GMV to reach a **double-digit share** of our online sales
- **80%** of online orders to be delivered next-day
- Launch of **2** Federal DCs and **3** Regional DCs
- Aggressive roll-out of pet supplies retail chain: **500** new Zoozavr stores with a **30%** online share in sales
- Targeting **double-digit** pet supplies market share
- Targeting launch of at least **2** children's digital services

# Continued top-line growth

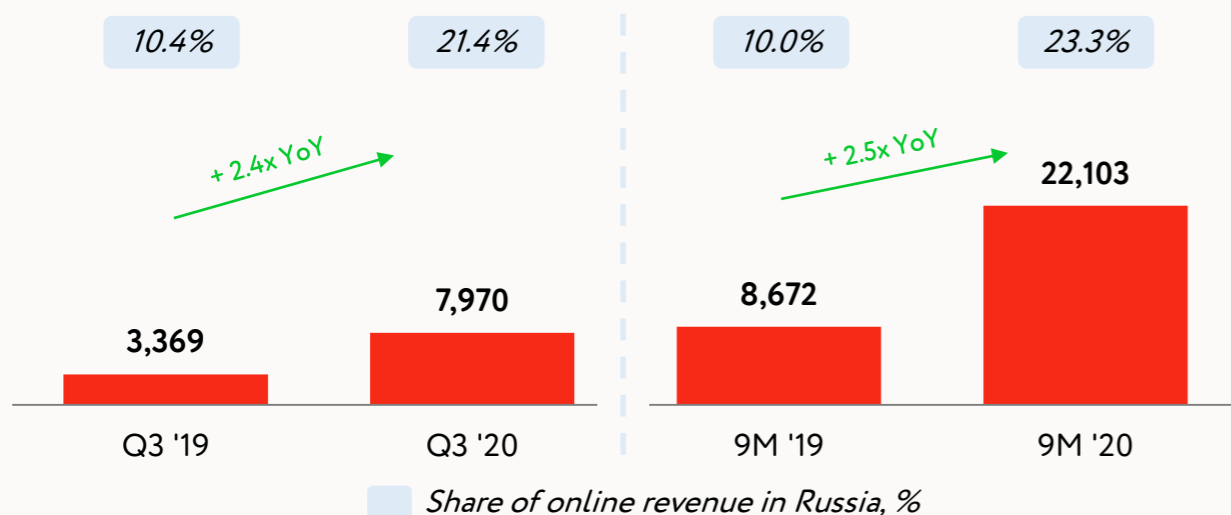
## Total revenue (RUB m)



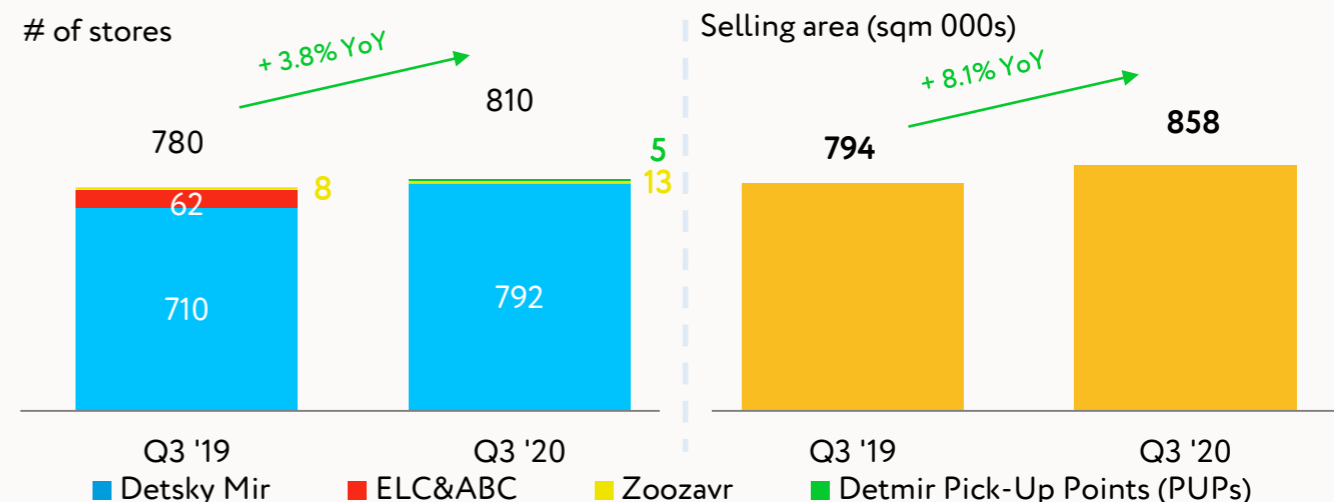
## Like-for-like sales growth



## E-commerce revenue (RUB m)



## Retail chain



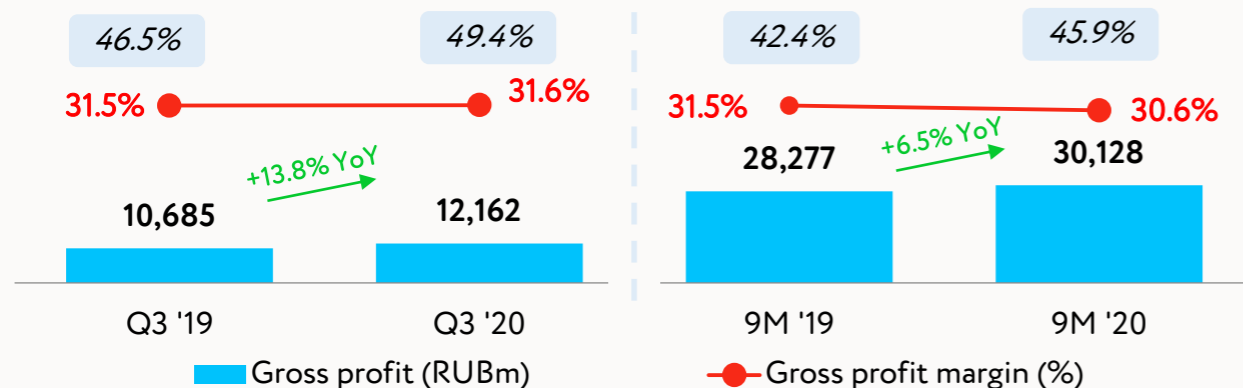
Source: Company data. The Company's consolidated financial measures for 2019-2020 and related interim periods are based on proforma financial information prepared as if IFRS 16 'Leases' had not been adopted, and thus do not represent IFRS measures.

<sup>1</sup> This segment includes performance of ELC, ABC, Zoozavr stores as well as Detsky Mir retail chain in Belarus

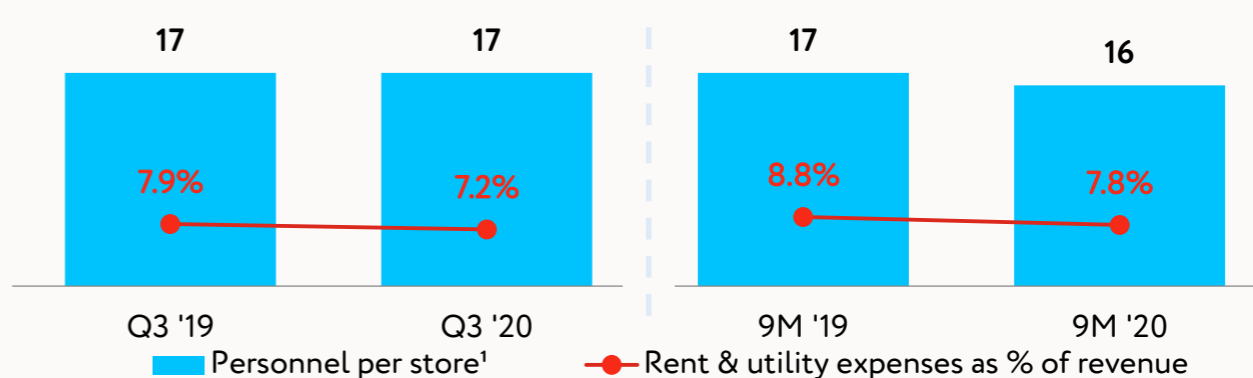
# Consistently strong profitability

## Keep investing gross margin in price leadership ...

Private label & direct imports, % of revenue

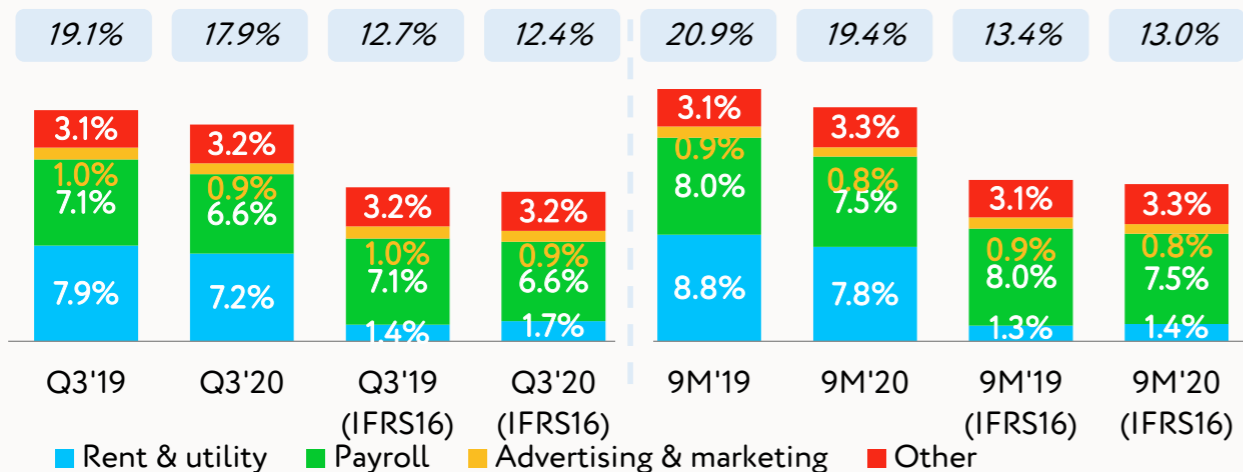


## ... while optimising store personnel and reducing rental costs ...

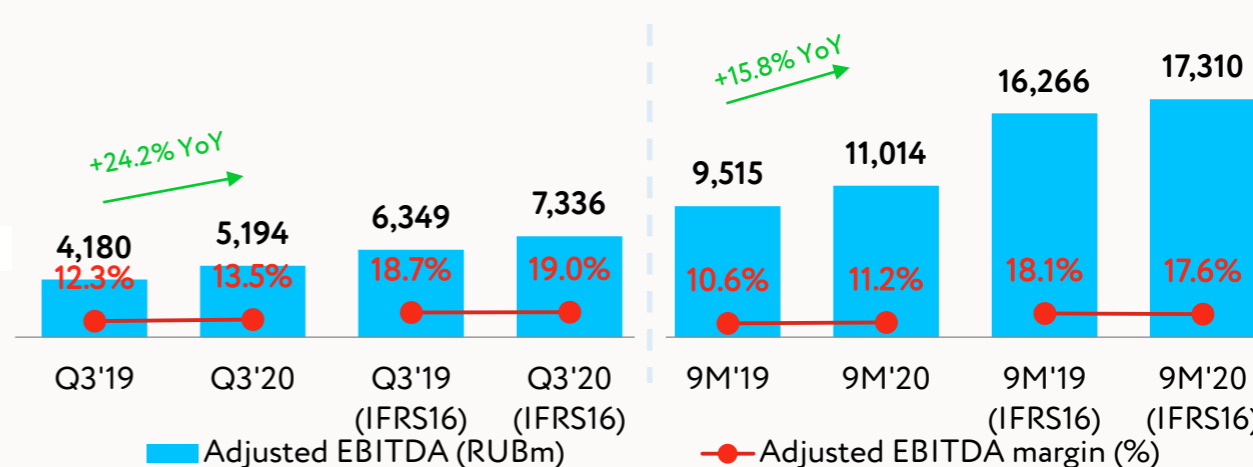


## ... to reduce SG&A expenses as % of revenue...

Adjusted SG&A expenses<sup>2</sup> as % of revenue



## ... and drive solid 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.

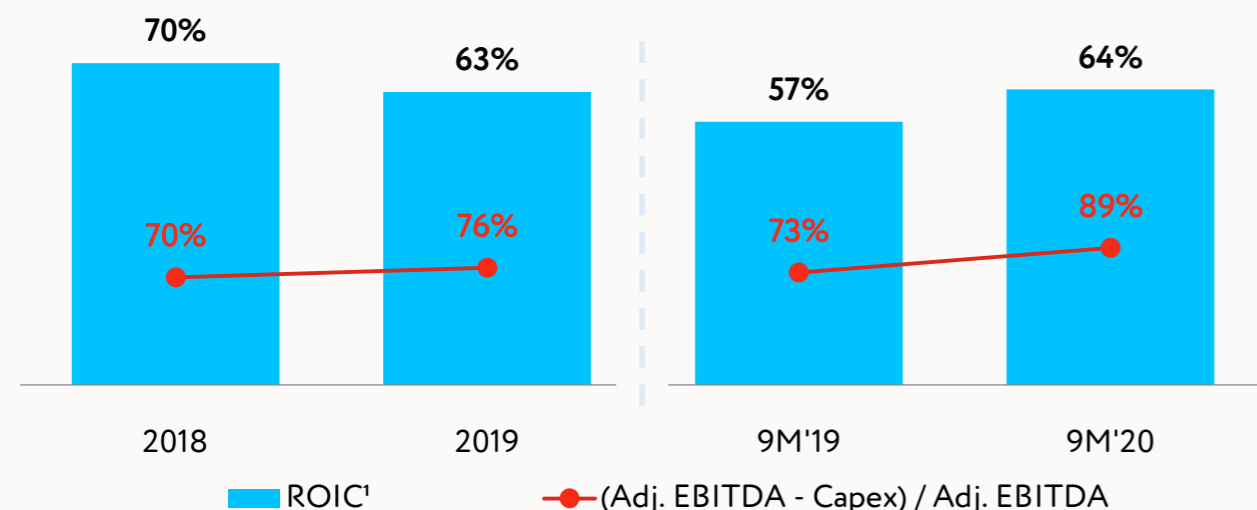
<sup>1</sup> Excluding personnel in headquarters. <sup>2</sup> Hereinafter, adjusted selling, general and administrative expenses is calculated as selling, general and administrative expenses adjusted for depreciation and amortisation expenses, additional share-based compensation expense and cash bonuses under the LTI program.

# Strong cash flow conversion

## Comments

- Strong cash conversion (Adj. EBITDA - Capex) / Adj. EBITDA driven by high ROIC
- Solid operating cash flow despite an increase in NWC in Q2 due to COVID-19
- Low finance expense on the back of the decrease YoY in net debt and interest rate
- Disciplined capex focused on store openings and selective investments in IT and infrastructure; limited maintenance capex requirements
  - Capex decreased by 52% YoY thanks to a less aggressive store expansion, as well as the absence of one-off capital expenses which were made in 2019

## Strong cash conversion and financial returns



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

## Cash flow (RUB m)

	2018	2019	9M'19	9M'20	9M'19 IFRS 16	9M'20 IFRS 16
Adjusted EBITDA	12,666	14,725	9,515	11,014	16,266	17,310
Changes in NWC	(7,156)	(132)	(3,815)	(7,124)	(3,752)	(7,079)
Cash income taxes paid	(1,083)	(1,696)	(957)	(985)	(957)	(985)
Net finance expense paid	(1,624)	(2,023)	(1,393)	(1,336)	(3,190)	(3,140)
Other operating cash flow	688	348	520	1,156	520	1,118
<b>Operating cash flow</b>	<b>3,489</b>	<b>11,222</b>	<b>3,870</b>	<b>2,726</b>	<b>8,887</b>	<b>7,224</b>
CAPEX	(3,793)	(3,507)	(2,567)	(1,221)	(2,567)	(1,221)
DC construction	(1,825)	(449)	(399)	(110)	(399)	(110)
Store openings, IT & maintenance <sup>2</sup>	(1,968)	(3,058)	(2,167)	(1,110)	(2,167)	(1,110)
<b>Free cash flow</b>	<b>(303)</b>	<b>7,715</b>	<b>1,303</b>	<b>1,505</b>	<b>6,321</b>	<b>6,321</b>
Investment cash flow	(3,794)	(3,467)	(2,545)	(1,192)	(2,545)	(1,192)
Financial cash flow	483	(9,322)	(3,943)	(1,807)	(8,961)	(6,305)
<b>Change in cash</b>	<b>180</b>	<b>(1,567)</b>	<b>(2,618)</b>	<b>(273)</b>	<b>(2,618)</b>	<b>(273)</b>

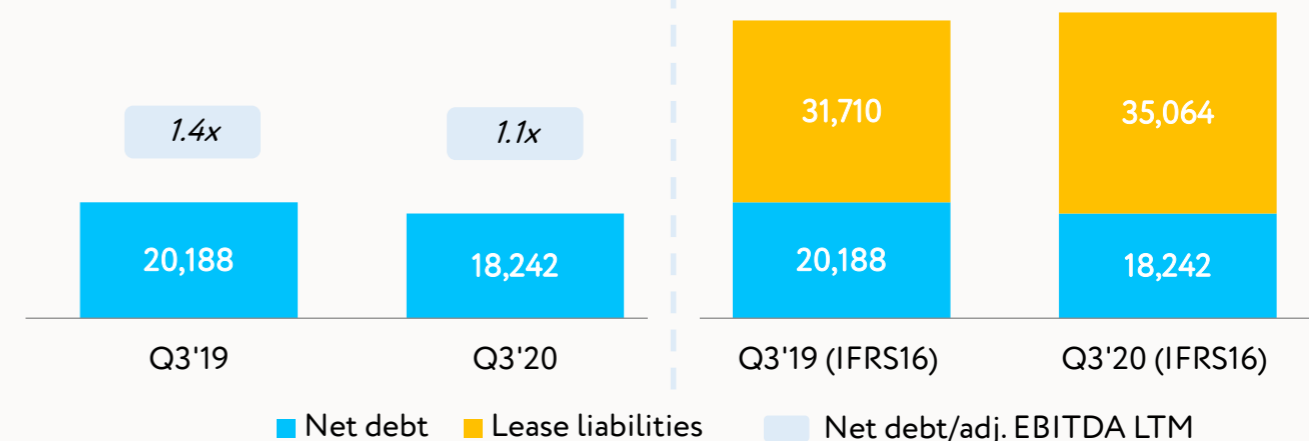
# Conservative financial policy

## Comments

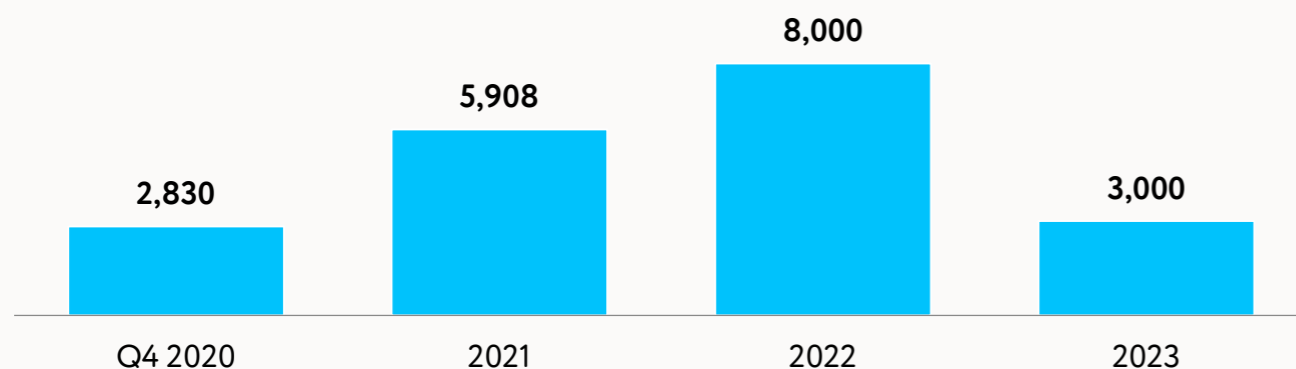
- Commitment to a conservative financial policy
  - Fully RUB-denominated debt to match RUB revenue, mostly fixed rates
  - Relationships with multiple Russian and international banks
- Net debt / adj. EBITDA LTM ratio as of 30 September 2020 is 1.1 vs. 4.0x average covenant level across the loan portfolio (before IFRS-16)
  - Decreased YoY thanks to CAPEX and NWC optimisation
- Weighted average interest rate<sup>1</sup> –7.4% (as of Q3'20)
- No contingent off-balance sheet liabilities
- Available undrawn credit limit of RUB 30bn for refinancing of the current credit portfolio aiming at its further diversification

## Leverage

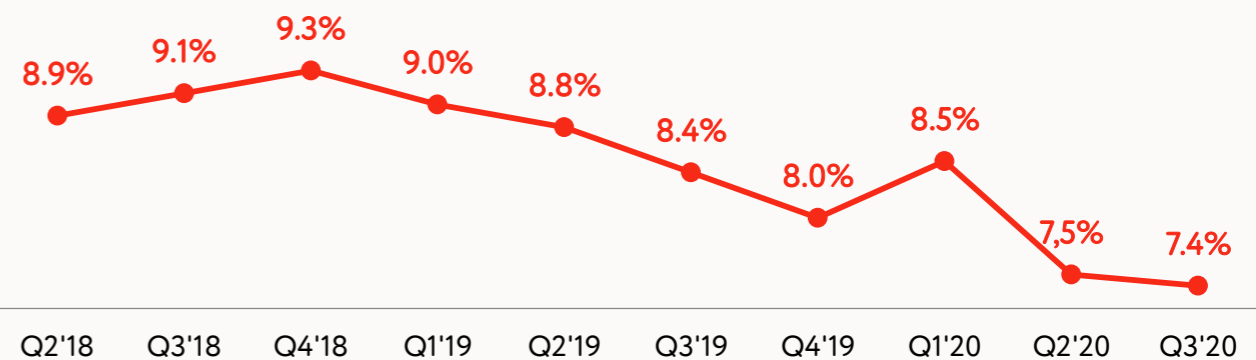
Q3'20 total debt – RUB 19.7bn



## Debt maturities as of 30 September 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

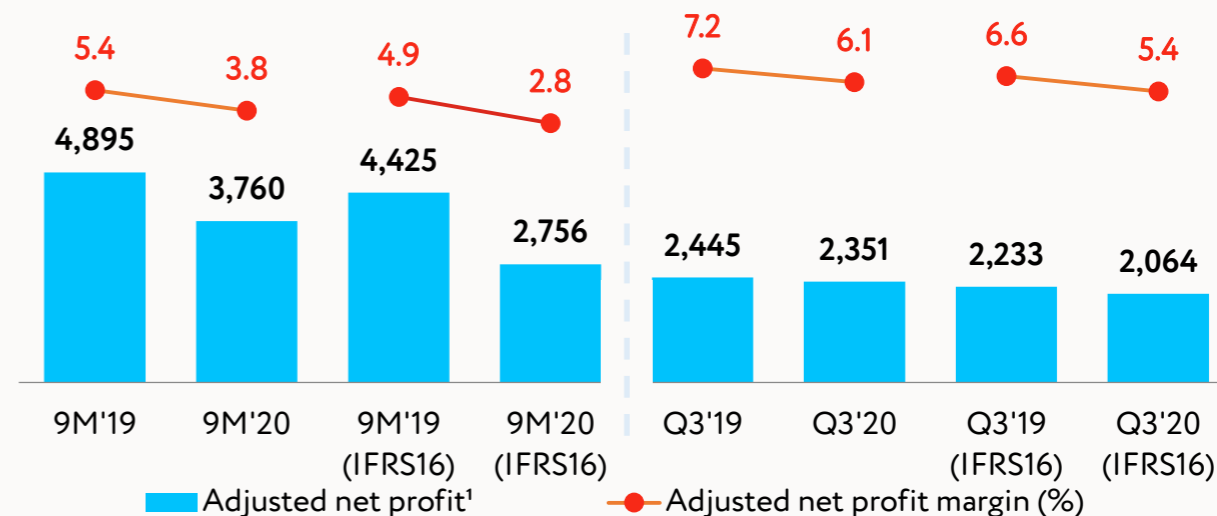


# Sustainably high returns to shareholders

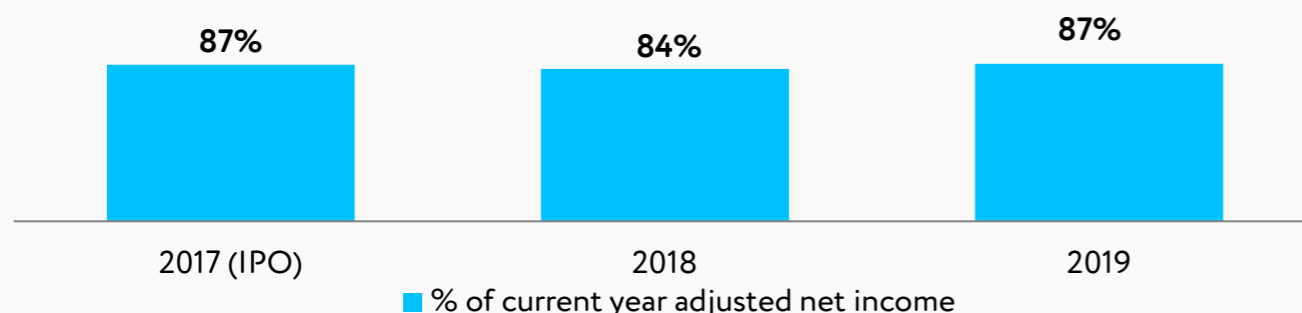
## Comments

- Asset-light cash generative model underpins significant dividend paying capacity
  - Dividends as major differentiator from most Russian high-growth retailers
  - Able 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, paying out up to 100% of net income under RAS
  - Typically two dividend payments per year (9m interim and full year)
- Detsky Mir paid out interim dividends of RUB 3.7bn for 9m 2019 in Q4 2019, and dividends of RUB 4.1bn for Q4 2019 in Q2-Q3 2020
- Executive team will recommend the BoD and its Shareholders to pay out an interim dividends for 9M 2020 of RUB 3.8bn (100% of net income under RAS)
- FX losses of RUB 2.6bn affected adjusted net profit in 9M'20 (80% non-cash)

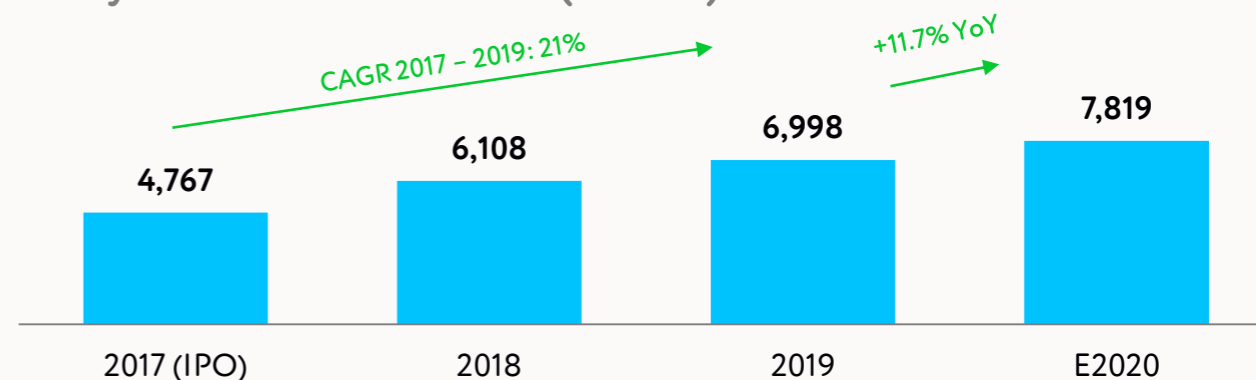
## Adjusted net income (RUB m)<sup>1</sup>



## Dividends as % of adjusted net income



## History of declared dividends (RUB m)<sup>2</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> 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

<sup>2</sup> 2020 Dividends are subject to the BoD and shareholder votes

# Short and mid-term guidance reiterated

## FY2019

### New store openings

- 101 new stores

### Revenue

- 7.2% total LFL growth, 8.5% ticket
- 16.1% total revenue growth
- Share of online sales at 11.2%

### Adjusted EBITDA margin

- 11.4% under IAS17
- 18.5% under IFRS16
- 32.3% gross margin
- Rent & utility expenses of 8.6% and personnel expenses of 8.0% of sales

### Leverage

- 1.2x leverage

### Dividends

- 87% of IFRS net income
- 100% of RAS net income







## Guidance

- 70 Detsky Mir stores in 2020 (mostly in Q4)
- At least 300 Detsky Mir stores in medium-term
- Detmir PUP: 10 in 2020; 800 in medium-term
- Zoozavr: 10 in 2020; 500 in medium-term
- New strategic initiatives (Zoozavr, PUP, MP) allow the Company to sustain similar growth rate as in past few years
- Online revenue to increase to 45% of total revenue
- 10% area under IAS17
- Double-digit under IFRS16
- Continued gross margin investment in traffic
- Grow share of higher-margin PL sales to ~60%
- Reduced personnel & rental expense margins thanks to efficiency
- Disciplined financial policy with target leverage below 2.0x despite accelerated investment in logistics and IT
- Payout ratio of at least 50% of IFRS net income
- Management recommendation - 100% of RAS net income



# Appendix

# New Government measures to support birth rates and boost 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		c. 540k children	
2 <sup>nd</sup> child		c.560k children	
3 <sup>rd</sup> child		c.230k children	
Total program		c. RUB 260bn	C.RUB 440bn
Cumulative incremental funds available		+RUB 180bn	

- 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

## Additional payments of RUB 632bn for families with children starting from June 2020

- One-off payments related to COVID-19 (RUB 496bn)
  - RUB 15thd per child in Q2 2020 for children <3 years old
  - RUB 10thd per child for children 3-16 years old in June
  - RUB 10thd per child for children <16 years old in July
- Ongoing support for lower income families (RUB 136bn)
  - RUB 5.5thd per child per month for children 3-7 years old accruing from January 2020

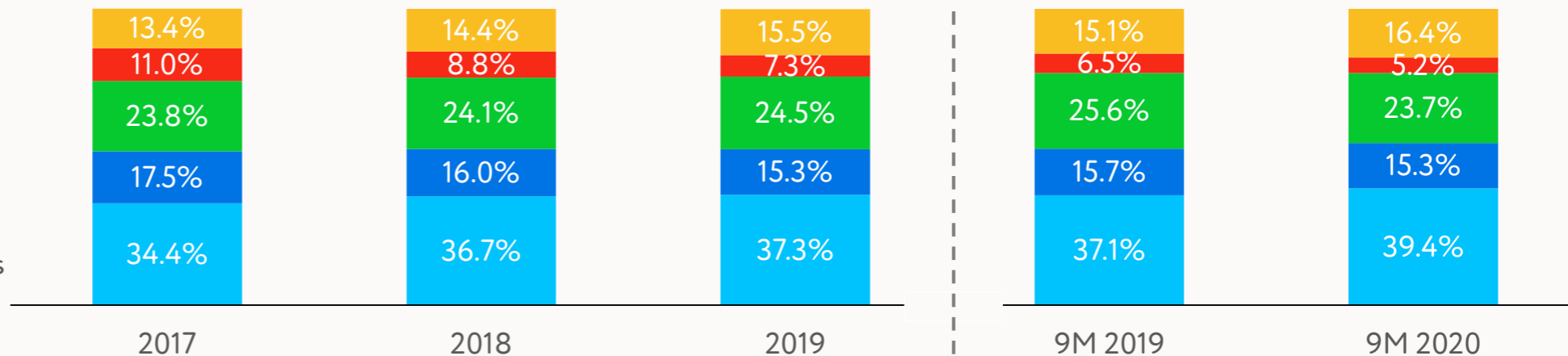
# Gaining market share in baby food and diapers segments

## Baby food sales by channel in Russia

**+1.2x**

Detsky Mir's market share growth over 3 years

- Supermarkets
- Hypermarkets
- Minimarkets
- Specialised stores
- Detsky Mir

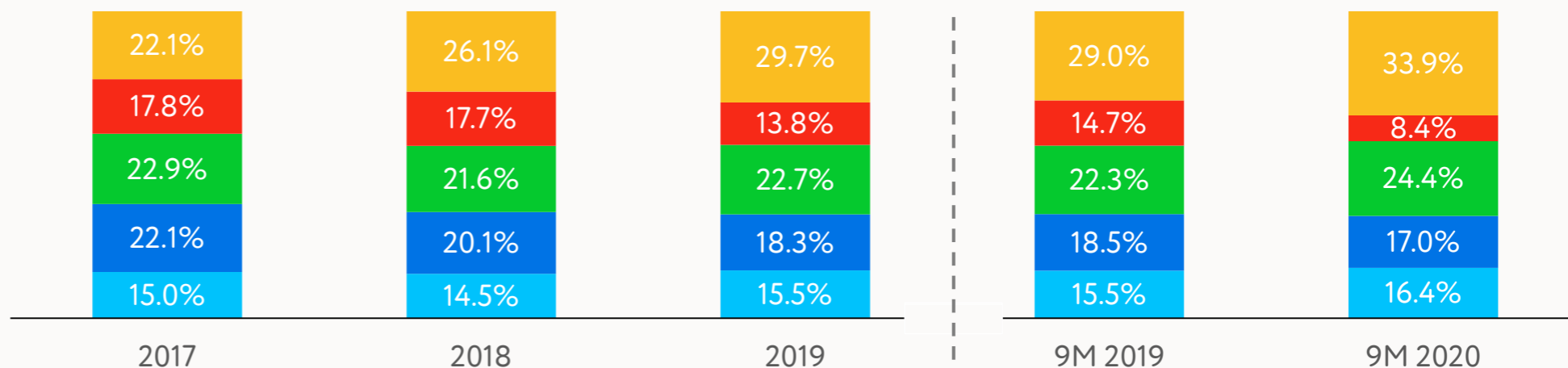


## Diapers sales by channel in Russia

**+1.5x**

Detsky Mir's market share growth over 3 years

- Supermarkets
- Hypermarkets
- Minimarkets
- Specialised stores
- Detsky Mir



# 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. Financial<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

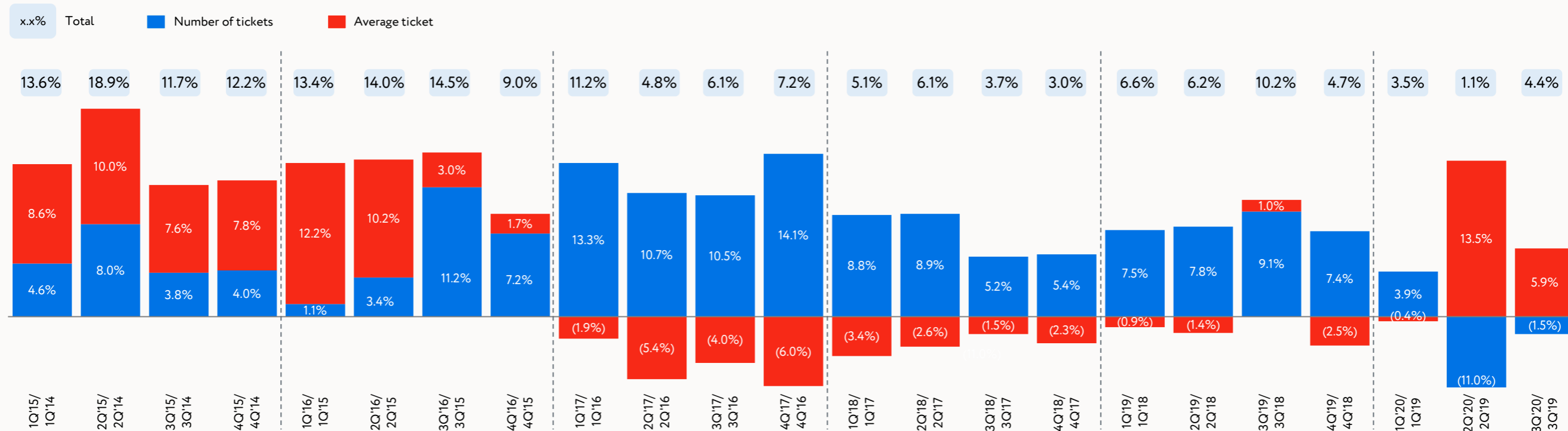
Incentive program to cement the management's long-term focus on shareholder value creation

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

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

# Robust like-for-like performance

## Like-for-like revenue growth



### LFL growth

Total
Average ticket
Number of tickets

### LFL growth 2016

12.3%
5.9%
6.0%

### LFL growth 2017

7.2%
(4.4%)
12.2%

### LFL growth 2018

4.3%
(2.4%)
6.9%

### LFL growth 2019

6.8%
(1.0%)
7.9%

Detsky Mir (Russia) demonstrated attractive LFL revenue growth rate (+3.2%) in 9M 2020

# Financial performance summary

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

	2018	2019	9M 2019	9M 2020
<b>Number of stores</b>	<b>743</b>	<b>842</b>	<b>780</b>	<b>810</b>
Detsky Mir and Detmir Pickup	673	770	710	797
ELC, ABC, Zoozavr stores	70	72	70	13
<b>Selling space (k sqm)</b>	<b>768</b>	<b>843</b>	<b>794</b>	<b>858</b>
<b>Revenue</b>	<b>110,874</b>	<b>128,764</b>	<b>89,850</b>	<b>98,394</b>
% total sales growth	14.3%	16.1%	17.3%	13.5%
% LFL sales growth	4.9%	7.2%	7.7%	3.2%
LTM Revenue per sqm <sup>2</sup> (RUB thousand / sqm)	152	160	165	166
Online sales <sup>4</sup>	8,771	14,489	8,672	22,103
Share of online sales in Russia	8.2%	11.7%	10.0%	23.3%
<b>Gross profit</b>	<b>36,829</b>	<b>41,532</b>	<b>28,277</b>	<b>30,128</b>
Margin, %	33.2%	32.3%	31.5%	30.6%
<b>LTM Gross profit per sqm<sup>2</sup> (RUB thousand / sqm)</b>	<b>51</b>	<b>52</b>	<b>53</b>	<b>53</b>
Adjusted SG&A	24,116	26,799	18,753	19,066
% of revenue	21.8%	20.8%	20.9%	19.4%
<b>Adjusted EBITDA</b>	<b>12,666</b>	<b>14,725</b>	<b>9,515</b>	<b>11,014</b>
Margin, %	11.4%	11.4%	10.6%	11.2%
<b>Adjusted profit for the period</b>	<b>7,229</b>	<b>8,022</b>	<b>4,895</b>	<b>3,760</b>
Margin, %	6.5%	6.2%	5.4%	3.8%
<b>Total debt</b>	<b>21,470</b>	<b>19,250</b>	<b>20,906</b>	<b>19,738</b>
Cash and cash equivalents	(3,335)	(1,769)	(717)	(1,496)
<b>Net debt</b>	<b>18,135</b>	<b>17,481</b>	<b>20,188</b>	<b>18,242</b>
Net debt / LTM Adjusted EBITDA	1.4x	1.2x	1.4x	1.1x
<b>Capex</b>	<b>(3,794)</b>	<b>(3,507)</b>	<b>(2,567)</b>	<b>(1,221)</b>
% of revenue	3.4%	2.7%	2.9%	1.2%
<b>Dividends declared</b>	<b>6,108</b>	<b>6,998</b>	<b>6,698</b>	<b>7,819<sup>4</sup></b>

## Comments

### Sales growth

- Strong support from online channel and company's rapid adjustment to the pandemic-affected environment conditions
- Lower LFL Sales growth rate caused by lower traffic because of the government's measures on the lockdown but supported but stronger average ticket size growth

### Improved operating efficiency

- Declining gross margin due to investment in price leadership to support LFL growth
- Improvement in SG&A by 1.5 p.p YoY driven by increased operational efficiency

### Superior EBITDA margin

- Increase in EBITDA margin supported by significant discounts from landlords during lockdown
- Substantial share of variable part in the payroll allowed to brought the SG&A share down as well

### Capex

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

### Conservative financial policy

- Net debt / adj. EBITDA as of 30-September-2020 is 1.1x 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 19-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)

<sup>4</sup> Declared dividends includes the Executive team's recommendation of the payment of the interim dividends for 9M 2020 of RUB 3.8bn (100% of net income under RAS)



## Contact information

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We have prepared a short feedback survey on our investment case and IR activities. The survey should take just a few minutes.

Your feedback and opinions are important and valuable to us.

Please follow this link to fill in the feedback survey. All results are anonymous. Thank you in advance.

[Feedback Survey](#)



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