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# DIXY Group

4Q and FY 2016 IFRS Results Investors & Analysts Presentation

March 2017



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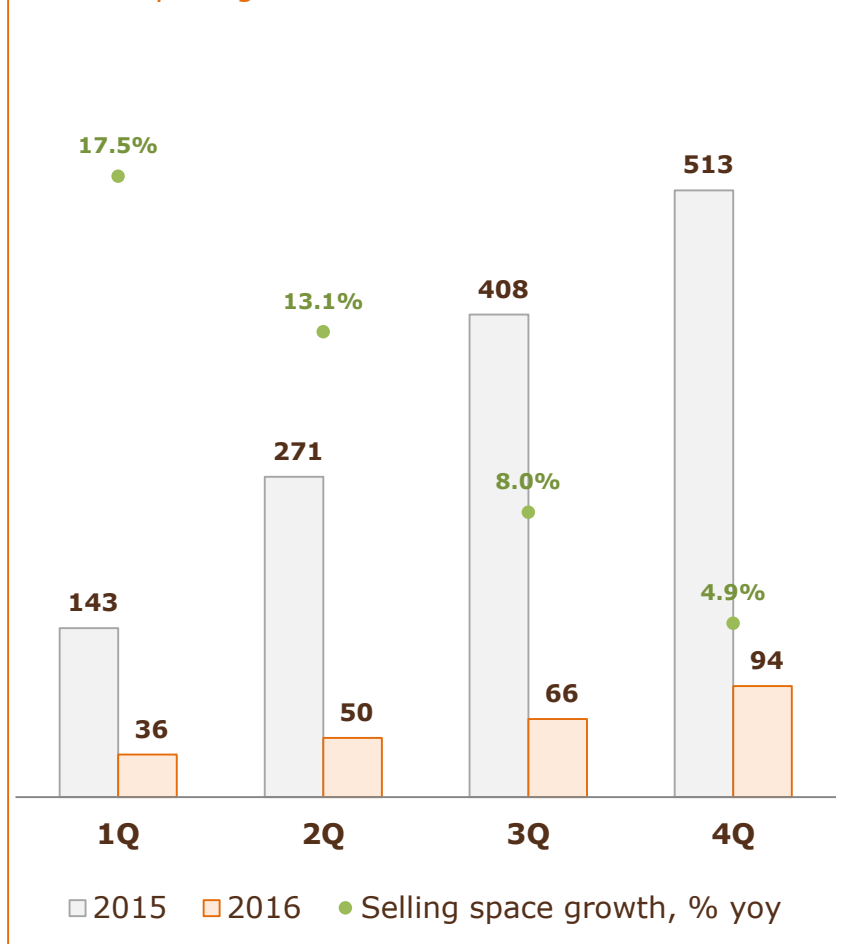
# DIXY Group Q4 & FY 2016 Operational Results

# 4Q and FY 2016 Store Base and Openings

## Store openings (net)

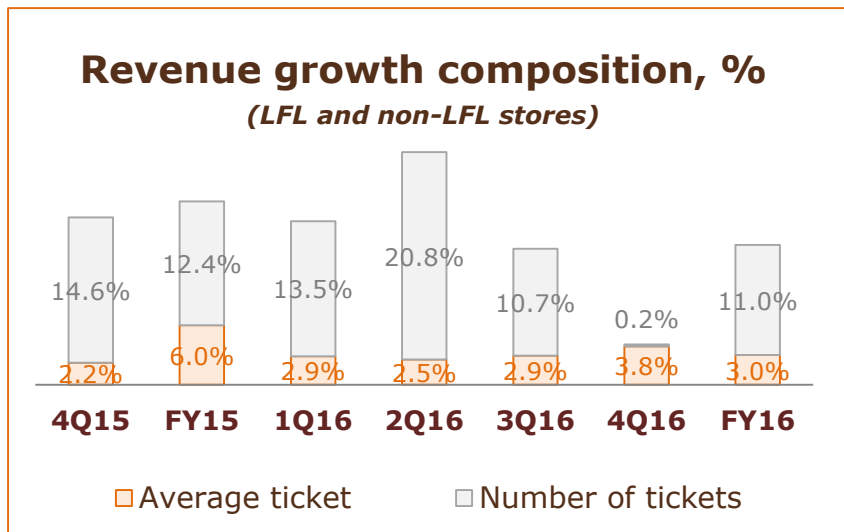
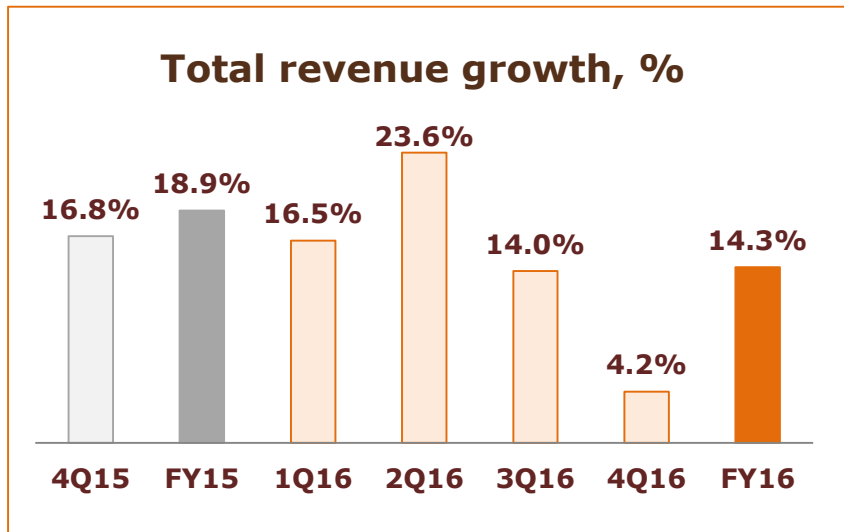
513 net openings in 2015

94 net openings in 2016



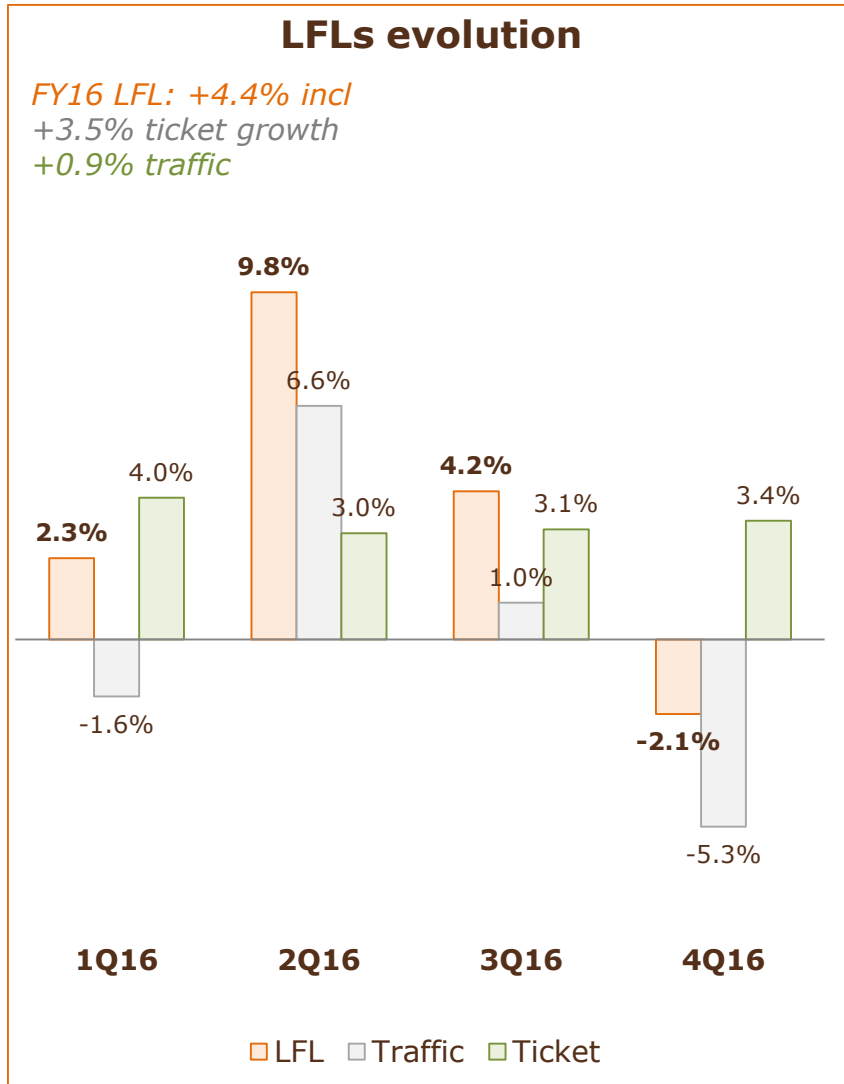
- Focus on quality of the asset base introduced in 2016 leading to the reassessment of existing stores and fewer new stores opened in 2016
- 94 stores net opened in 2016
- Total selling space is 953 thousand sqm
- New “DIXY for fresh” store format is elaborated and launched in early 2017 in pilot stores with enhanced equipment and layout for strategic categories, whilst CAPEX requirements are light
- In December 2016, 12 stores are acquired in Kaliningrad region to further strengthen the leading position of Victoria division

# 4Q and FY 2016 Revenue Growth



- The retail market in Russia was challenging in 4Q and FY 2016
- The customer remained very sensitive to price and promo activity
- In 4Q16, revenue increased by +4.2% and amounted to 78 bln RUB, on the back of +0.2% number of tickets increase and +3.8% higher ticket
- In 2016, top line growth came at +14.3% and amounted to 311 bln RUB, due to +11.0% increase in the number of tickets and +3.0% ticket growth
- The revenue growth in 2016 was predominantly driven by new stores openings in 2015-2016

# 4Q and FY 2016 LFL Growth



- LFL sales were volatile during 2016
- New pricing strategy and change in promo activity supported LFLs in 1H16 ...
- ... while significant changes in the assortment and overall market softness led to decline in LFL traffic towards the year end

# Major Management Focus in 4Q 2016

- Assortment strategy is redefined, while keeping the width of the assortment the focus is on increasing the penetration of own brands to  $\geq 25\%$  of sales by 2017 year-end
- Pricing strategy is to make a compelling value offer for customers
- New principles of promotional activities to improve sales, reduce out of stocks and enhance forecasting and replenishment
- Development of "DIXY for fresh" - DIXY remodeled store format followed by launch in early 2017
- The negotiating campaign with suppliers was finalized; suppliers agreements are in line with the new Trade Law requirements
- New staff motivation program was elaborated and implemented in 1Q 2017. KPIs are now streamlined with Company's strategic goals
- Flexible workload planning to adapt to challenging market conditions
- Cost optimization programmes to enhance the profitability of the business across all major units of the Company
- New working capital management system: inventory planning, e-doc exchange with suppliers, factoring and credit controls, optimization of payments for direct imports

# DIXY Group Q4 & FY 2016 Financials



## 4Q Financial Highlights

- Revenue increased by 4.2% and amounted to 78 bln RUB
- Gross Margin amounted to 26.8%
- Shrinkage costs as % of revenue went down by 60bp to 2.6%
- SG&A expenses as % of revenue declined by 30bp to 27.2%
- EBITDA amounted to 2.2 bln RUB; EBITDA margin stood at 2.8%
- Finance costs (net) decreased by 24.4%
- Net cash flow from operations increased by 95% to 5.6 bln RUB
- CAPEX went down by 14.5% and amounted to 5.2 bln RUB

# Q4 2016 Profit and Loss Account

	in RUB mln			as % of revenue		
	4Q 2016	4Q 2015	YoY (%)	4Q 2016	4Q 2015	YoY (%)
<b>Revenue</b>	<b>78,058</b>	<b>74,927</b>	<b>4.2%</b>	<b>100%</b>	<b>100%</b>	<b>-</b>
Commercial margin	23,064	25,040	(7.9%)	29.8%	33.6%	(390bp)
Shrinkage costs	2,004	2,370	(15.5%)	2.6%	3.2%	(60bp)
Transportation costs	715	587	21.8%	0.9%	0.8%	10bp
<b>Gross profit</b>	<b>20,914</b>	<b>22,544</b>	<b>(7.2%)</b>	<b>26.8%</b>	<b>30.1%</b>	<b>(330bp)</b>
OPEX (excl D&A)	18,707	18,431	1.5%	24.0%	24.6%	(60bp)
D&A	2,495	2,176	14.7%	3.2%	2.9%	30bp
<b>EBITDA</b>	<b>2,207</b>	<b>4,113</b>	<b>(46.3%)</b>	<b>2.8%</b>	<b>5.5%</b>	<b>(270bp)</b>
<b>EBITDAR</b>	<b>7,760</b>	<b>9,307</b>	<b>(16.6%)</b>	<b>9.9%</b>	<b>12.4%</b>	<b>(250bp)</b>
Interest expenses (net)	892	1,180	(24.4%)	1.1%	1.6%	(50bp)
<b>Net (loss) / profit</b>	<b>(756)</b>	<b>624</b>	<b>na</b>	<b>(1.0%)</b>	<b>0.8%</b>	<b>na</b>

- 4Q 2016 EBITDA was predominantly impacted by the decreased commercial margin
- Commercial margin was lower yoy due to soft pricing in the market and liquidation of delisted stock after the assortment optimization; however it was partially compensated by regular seasonal bonuses
- Shrinkage costs declined by 15.5% yoy in RUB and by 60bp as % of revenue due to improvement in logistics and supply chain, decrease in inventory and focus on shrinkage
- Operating expenses declined, as % of revenue, as a result of management cost optimization program

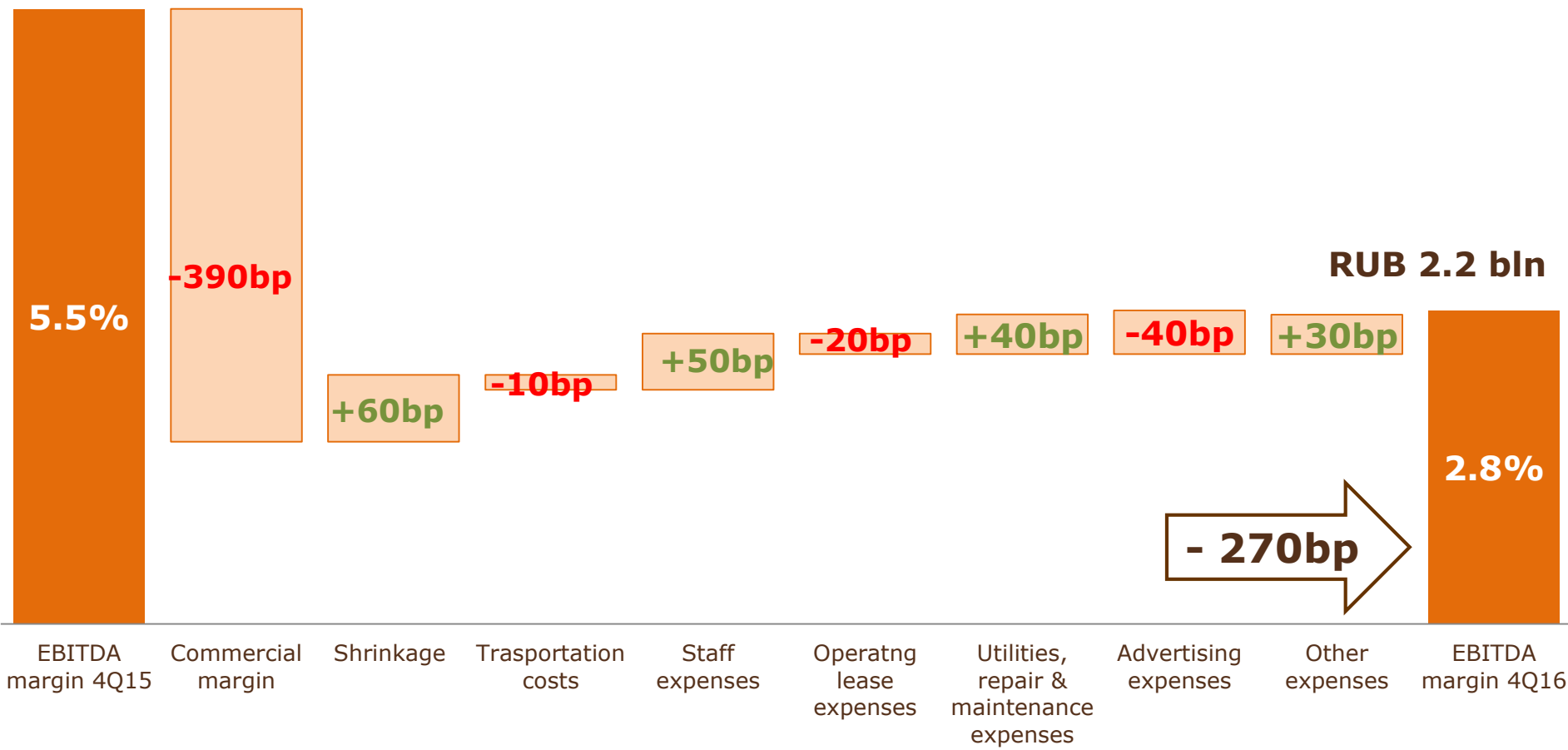
# Q4 2016 SG&A Evolution

	in RUB mln			as % of revenue		
	4Q 2016	4Q 2015	YoY (%)	4Q 2016	4Q 2015	YoY (%)
<b>SG&amp;A expenses</b>	<b>21,202</b>	<b>20,607</b>	<b>2.9%</b>	<b>27.2%</b>	<b>27.5%</b>	<b>(30bp)</b>
Staff expenses	8,913	8,936	(0.3%)	11.4%	11.9%	(50bp)
Operating lease expenses	5,553	5,194	6.9%	7.1%	6.9%	20bp
D&A expenses	2,495	2,176	14.7%	3.2%	2.9%	30bp
Utilities, repair and maintenance expenses	1,964	2,150	(8.6%)	2.5%	2.9%	(40bp)
Advertising expenses	726	406	78.9%	0.9%	0.5%	40bp
Other expenses	1,550	1,745	(11.2%)	2.0%	2.3%	(30bp)

- Staff expenses decreased by 50bp yoy, as % of revenue, thanks to optimization of stores costs through the strict controls of working hours and flexible workload
- Operating lease expenses grew by 20bp, as % of revenue, due to new store openings and annual rent indexation. The management is implementing a comprehensive programme on rent renegotiations across all leased premises
- Utilities, repair and maintenance expenses decreased by 40bp, as % of revenue, mainly due to optimization in outsourced cleaning staff and store servicing costs
- Advertising costs increased due to heavier usage of TV commercials, higher promotional activity including introduction of thematic food festivals and redesigned communication materials
- The decrease in other expenses is related mainly to better control over staples and materials expenses

# 4Q 2016 EBITDA Bridge

RUB 4.1 bln



RUB 2.2 bln

# FY 2016 Financial Highlights

- Revenue increased by 14.3% and amounted to 311 bln RUB
- Gross margin amounted to 26.7%
- Shrinkage costs as % of revenue declined by 60bp yoy to 2.7%
- SG&A expenses as % of revenue decreased by 60bp yoy to 26.5%
- EBITDA amounted to 9.6 bln RUB, EBITDA margin stood at 3.1%
- Finance costs (net) decreased by 11.0%
- Total debt went down by 5.5% to 32.9 bln RUB
- Average interest rate on debt decreased by 2.0% yoy to 12.4% in 2016
- Net cash flow from operations increased 2.1x times to 12.3 bln RUB
- CAPEX decreased by 30.5% and amounted to 9.5 bln RUB

# FY 2016 Profit and Loss Account

	in RUB mln			as % of revenue		
	FY 2016	FY 2015	YoY (%)	FY 2016	FY 2015	YoY (%)
<b>Revenue</b>	<b>311,237</b>	<b>272,345</b>	<b>14.3%</b>	<b>100%</b>	<b>100%</b>	<b>-</b>
Commercial margin	92,563	89,029	4.0%	29.9%	32.9%	(300bp)
Shrinkage costs	8,490	8,932	(4.9%)	2.7%	3.3%	(60bp)
Transportation costs	3,051	2,275	34.1%	1.0%	0.8%	20bp
<b>Gross profit</b>	<b>83,174</b>	<b>79,709</b>	<b>4.3%</b>	<b>26.7%</b>	<b>29.3%</b>	<b>(260bp)</b>
OPEX (excl D&A)	73,573	66,239	11.1%	23.6%	24.3%	(70bp)
D&A	8,764	7,661	14.4%	2.8%	2.8%	-
<b>EBITDA</b>	<b>9,601</b>	<b>13,470</b>	<b>(28.7%)</b>	<b>3.1%</b>	<b>4.9%</b>	<b>(180bp)</b>
<b>EBITDAR</b>	<b>31,340</b>	<b>32,137</b>	<b>(2.5%)</b>	<b>10.1%</b>	<b>11.8%</b>	<b>(170bp)</b>
Interest expenses (net)	4,149	4,660	(11.0%)	1.3%	1.7%	(40bp)
<b>Net (loss) / profit</b>	<b>(2,786)</b>	<b>589</b>	<b>na</b>	<b>(0.9%)</b>	<b>0.2%</b>	<b>na</b>

- Commercial margin was lower yoy due to soft pricing in the market, aggressive promo campaigns in 2Q 2016 and liquidation of delisted stock after the assortment optimization in 2Q – 3Q 2016
- Shrinkage costs declined by 4.9% yoy in RUB and by 60bp, as % of revenue, due to improvement in logistic and supply chain, decrease in inventory and focus on shrinkage related KPIs in motivation for store staff, especially in 2H 2016
- Operating expenses were strictly controlled through the initiated cost optimization program despite unfavorable operating leverage effects as a result of decelerating LFL sales in 2H 2016. SG&A expenses decreased by 60bp as % of revenue in 2016

Source: Company data, 12M 2016  
Note: IFRS

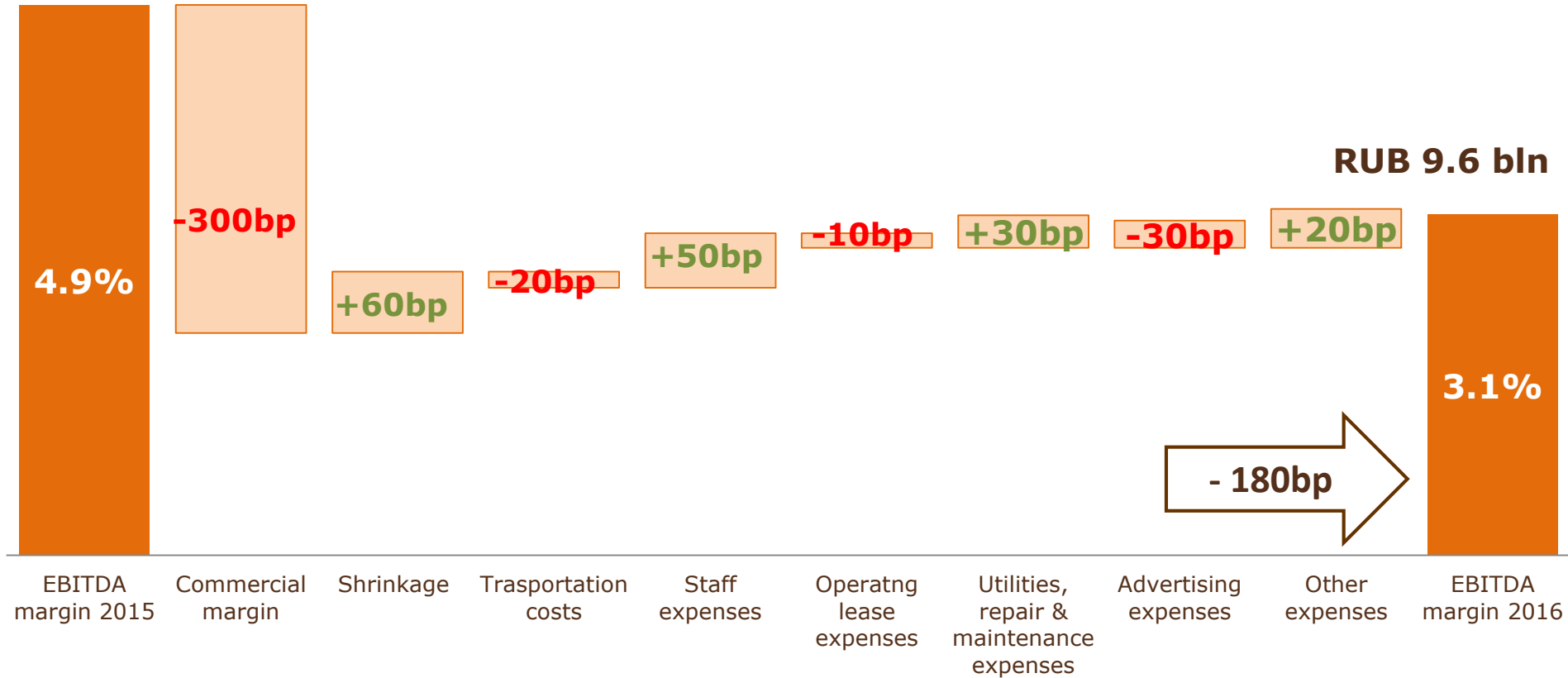
# FY 2016 SG&A Evolution

	in RUB mln			as % of revenue		
	FY 2016	FY 2015	YoY (%)	FY 2016	FY 2015	YoY (%)
<b>SG&amp;A expenses</b>	<b>82,337</b>	<b>73,900</b>	<b>11.4%</b>	<b>26.5%</b>	<b>27.1%</b>	<b>(60bp)</b>
Staff expenses	36,185	33,055	9.5%	11.6%	12.1%	(50bp)
Operating lease expenses	21,739	18,667	16.5%	7.0%	6.9%	10bp
D&A expenses	8,764	7,661	14.4%	2.8%	2.8%	-
Utilities, repair and maintenance expenses	7,734	7,569	2.2%	2.5%	2.8%	(30bp)
Advertising expenses	2,149	1,214	77.0%	0.7%	0.4%	30bp
Other expenses	5,766	5,734	0.6%	1.9%	2.1%	(20bp)

- Staff expenses decreased by 50bp yoy, as % of revenue, despite high rotation of management and thanks to optimization of staff in stores, offices and logistics
- Operating lease expenses increased by 10bp despite stable share of leased space since rental rates indexation usually linked to CPI while LFLs growth was volatile and grew below inflation. Management is undertaking a comprehensive programme on rent rates renegotiations across all leased premises
- Utilities, repair and maintenance expenses decreased by 30bp, as % of revenue, mainly due to optimization in outsourced cleaning staff and store servicing costs in 2H16
- Advertising costs increased due to heavier usage of TV commercials, higher promotional activity including introduction of thematic food festivals and redesigned communication materials

# FY 2016 EBITDA Bridge

RUB 13.5 bln



RUB 9.6 bln

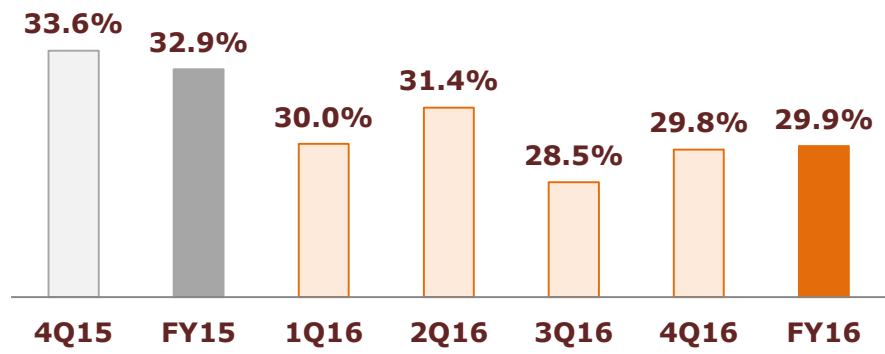
3.1%

- 180bp

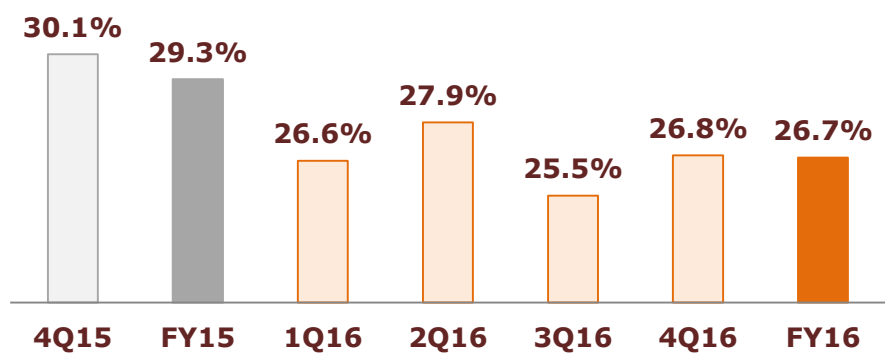


# Key Profitability Metrics

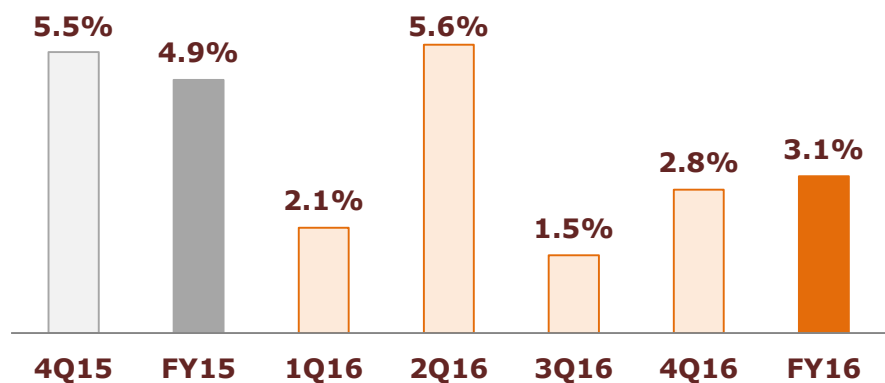
**Commercial margin, %**



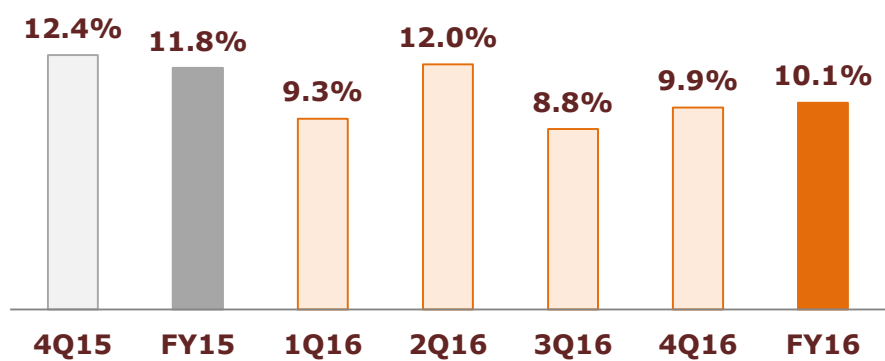
**Gross margin, %**



**EBITDA margin, %**



**EBITDAR margin, %**



Source: Company data, 12M 2016  
Note: IFRS

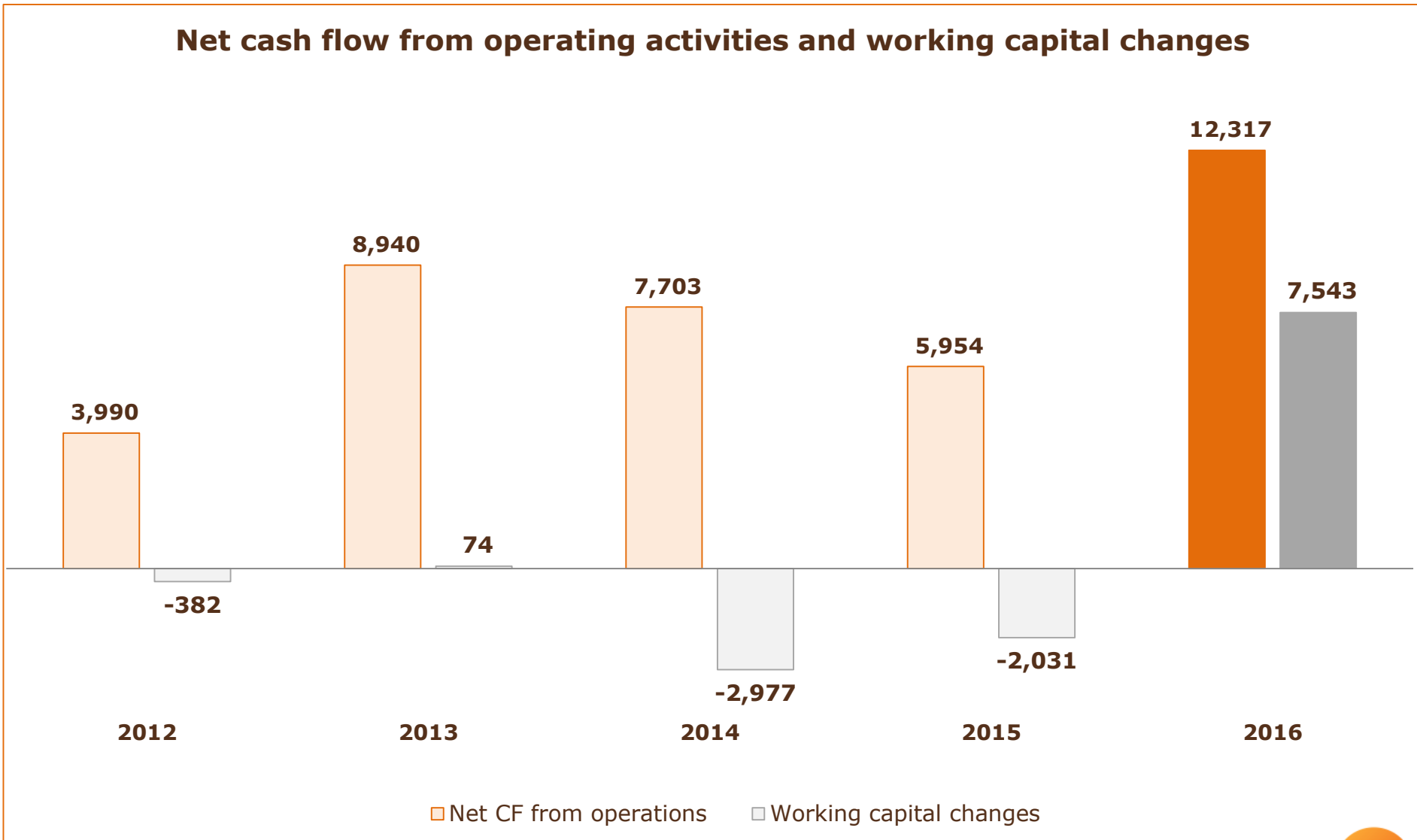
# FY 2016 Cash Flow Statement

RUB million	1Q16	2Q16	3Q16	4Q16	FY 2016	FY 2015	YoY (%)
CF before Working capital change	1,512	5,252	1,068	2,072	9,903	14,004	(29.3%)
Working capital change	2,416	(2,300)	2,968	4,460	7,543	(2,031)	na
CF after working capital change	3,928	2,952	4,036	6,531	17,447	11,972	45.7%
Income tax and interest expenses	(1,398)	(1,273)	(1,494)	(965)	(5,130)	(6,018)	(14.8%)
<b>CF from/(used in) operations</b>	<b>2,530</b>	<b>1,678</b>	<b>2,541</b>	<b>5,567</b>	<b>12,317</b>	<b>5,954</b>	<b>106.9%</b>
CF used in investing activities	(1,357)	(2,097)	(910)	(4,647)	(9,011)	(11,143)	(19.1%)
CF from/(used in) financing activities	223	(1,084)	(2,726)	1,465	(2,122)	5,360	na
Net change in cash and cash equivalents	1,397	(1,503)	(1,095)	2,384	1,183	171	na
<b>Cash and cash equivalents, eop</b>	<b>4,318</b>	<b>2,815</b>	<b>1,720</b>	<b>4,104</b>	<b>4,104</b>	<b>2,921</b>	<b>40.5%</b>

- Cash flow from operations more than doubled and amounted to RUB 12.3 bln in 2016 on the back of strong improvement in working capital
- Cash flow used in investing activities decreased by 19.1% yoy RUB 9.0 bln mainly due to lower investments in new store openings and CAPEX program optimization
- Cash outflow from financing activities stood at RUB 2.1 bln due to the prudent capital policy and reduction of total debt

# Cash Flow From Operations

**Net cash flow from operating activities and working capital changes**



Source: Company data, 12M 2016  
Note: IFRS

# Working Capital Changes

RUB million	1Q16	2Q16	3Q16	4Q16	FY16	FY15
<b>Working capital change, incl</b>	<b>2,416</b>	<b>(2,300)</b>	<b>2,968</b>	<b>4,460</b>	<b>7,543</b>	<b>(2,031)</b>
- Inventories	994	2,582	2,216	(3,135)	2,657	(7,713)
- Trade and other accounts receivable	1,645	(4,366)	2,376	2,078	1,732	360
- Trade and other accounts payable	(2,012)	(1,322)	(814)	6,823	2,675	5,288
- Other	1,789	806	(810)	(1,306)	479	34

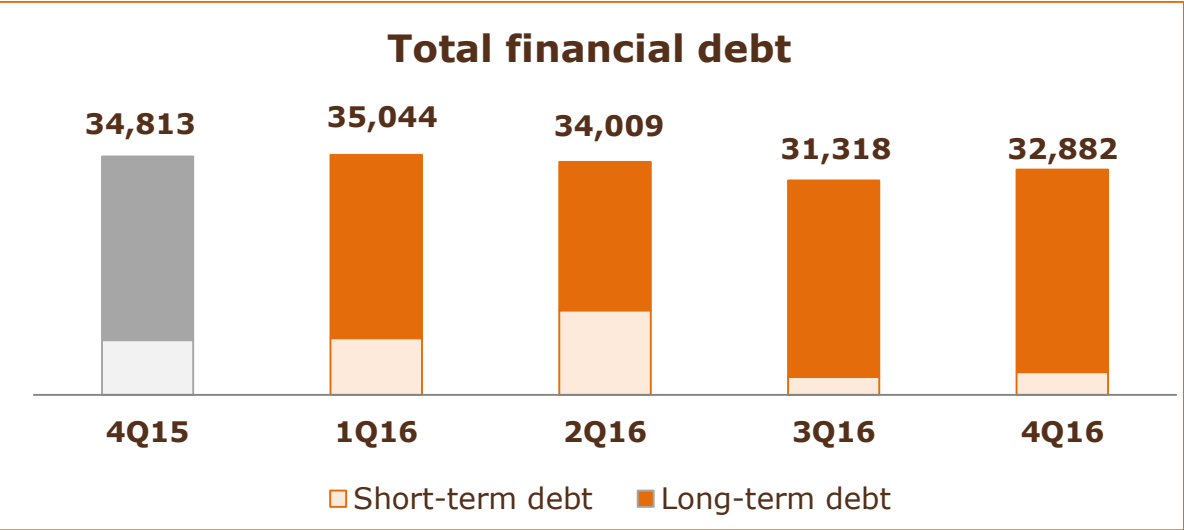
- Working capital release amounted to RUB 7.5 bln in 2016 in comparison to RUB (2.0) bln in 2015
- Inventory declined by RUB 2.7 bln thanks to the new management system for inventory planning, improvement in logistics and supply chain operations and assortment optimization
- Improvement in accounts receivable and payable is related to introduction of electronic document flow with suppliers, improved credit control, use of factoring and setoff and optimization of payments for direct import

# FY 2016 CAPEX

RUB million (incl VAT)	FY 2016	FY 2015	YoY (%)	YoY (RUBmln)
<b>Capital expenditures</b>	<b>9,476</b>	<b>13,639</b>	<b>(30.5%)</b>	<b>(4,163)</b>
Organic growth	4,588	8,492	(46.0%)	(3,904)
Logistics	3,227	2,849	13.3%	378
Reconstruction and maintenance	863	1,105	(21.9%)	(242)
Other	798	1,194	(33.2%)	(396)

- Capital expenditures in 2016 were lower by RUB 4.2 bln compared to 2015 mainly due to lower CAPEX spent on organic expansion as Company opened less stores in the reporting year
- Organic growth CAPEX includes consideration for acquisition of 12 premises in Kaliningrad region in December 2016
- Higher CAPEX for logistics was driven by the construction of the new distribution center DC Severny, which was finalised in December 2016, and acquisition of the new trucks

# Debt Portfolio



- Total debt declined by 5.5% yoy
- Debt is fully RUB denominated
- Debt portfolio carries fixed interest rates
- 90% debt portfolio at Dec 31, 2016 was long-term in comparison to 77% at the end of 2015 since management refinanced the majority of the debt during 2016 and extended the maturity of the overall debt portfolio
- The average weighted interest rate on the Group’s debt portfolio went down by 2.0% in 2016 to 12.4%
- Debt increased in 4Q16 vs 3Q16 due to seasonal factors

	Dec 31, 2016	Dec 31, 2015
Total debt to EBITDA	3.3x	2.6x
Net debt to EBITDA	3.0x	2.4x

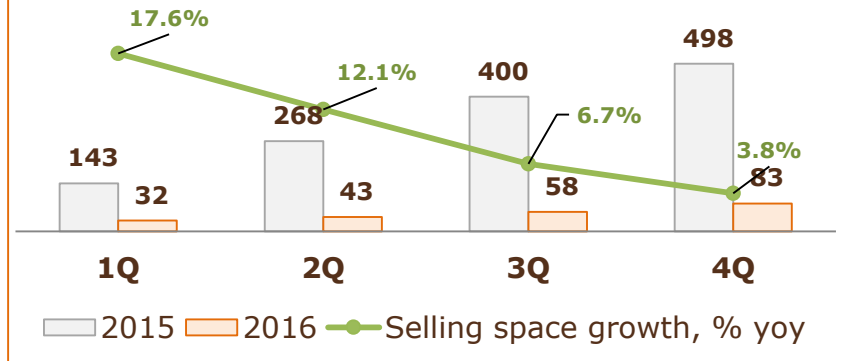
\*Total debt includes loans and credits and finance lease

# Appendices

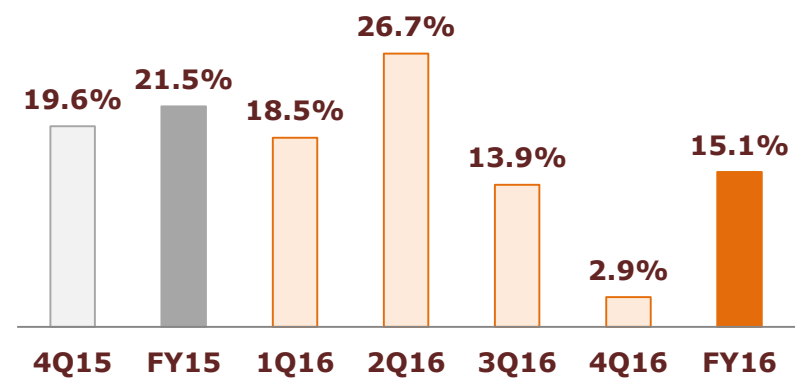
# 4Q and FY 2016 Operational Highlights (DIXY Division)

## Store openings (net)

498 net openings in 2015  
83 net openings in 2016

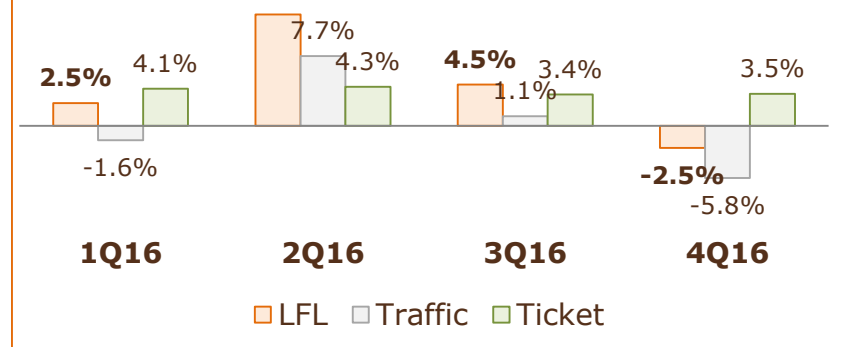


## Retail revenue growth, %



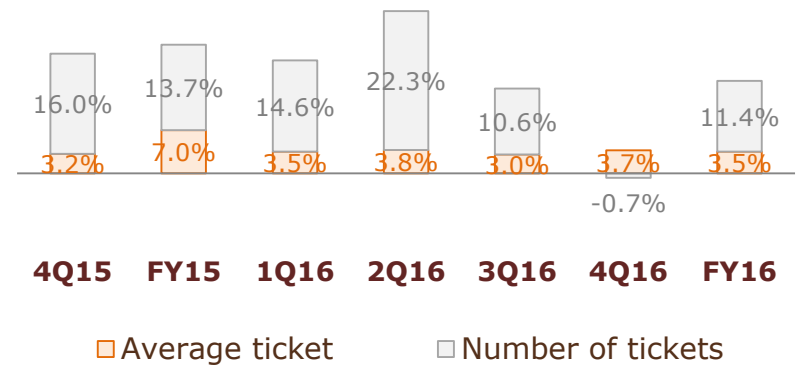
## LFLs dynamics

FY16 LFL: +5.1% incl  
+4.0% ticket growth  
+1.1% traffic



## Revenue growth composition, %

(LFL and non-LFL stores)

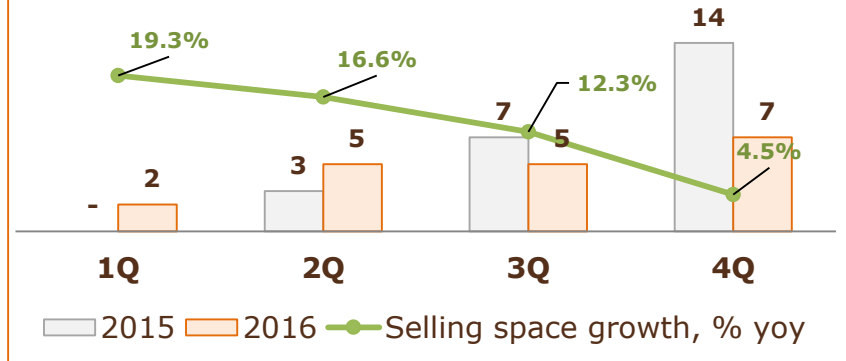




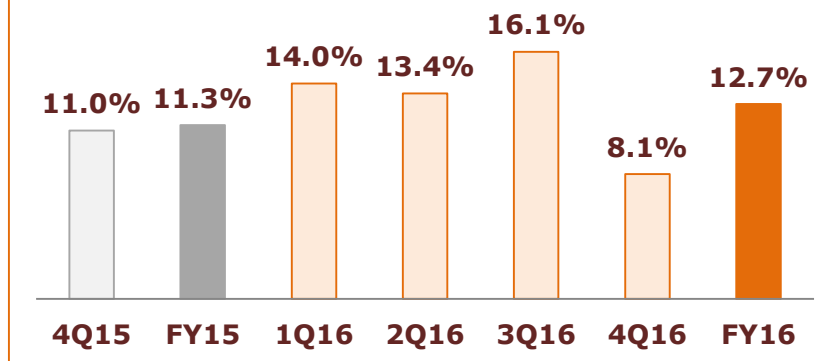
# 4Q and FY 2016 Operational Highlights (Victoria Division)

## Store openings (net)

14 net openings in 2015  
7 net openings in 2016

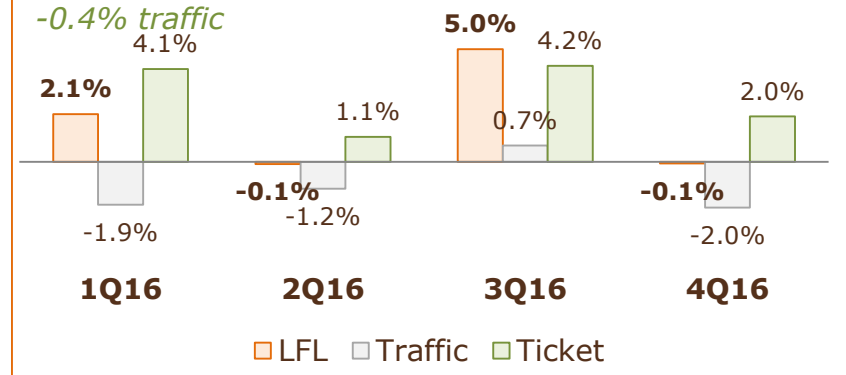


## Retail revenue growth, %



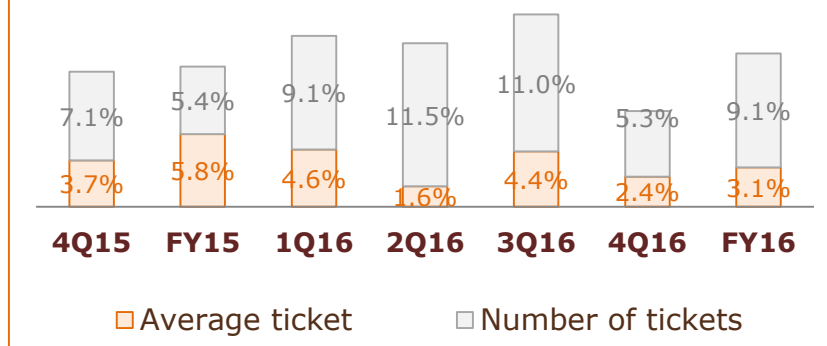
## LFLs dynamics

FY16 LFL: +2.4% incl  
+2.8% ticket growth  
-0.4% traffic



## Revenue growth composition, %

(LFL and non-LFL stores)

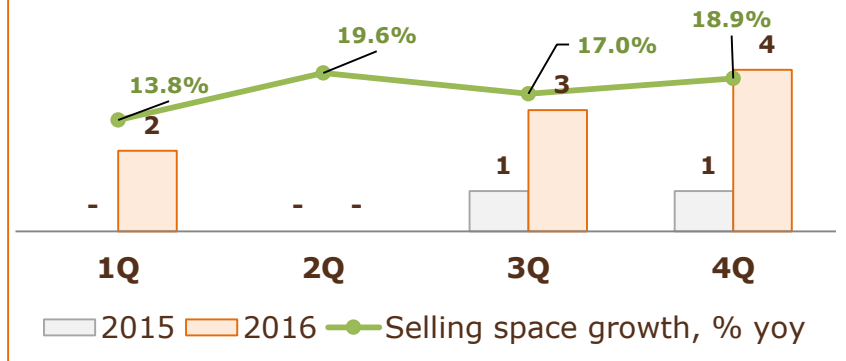


Source: Company data, 12M 2016  
Note: IFRS

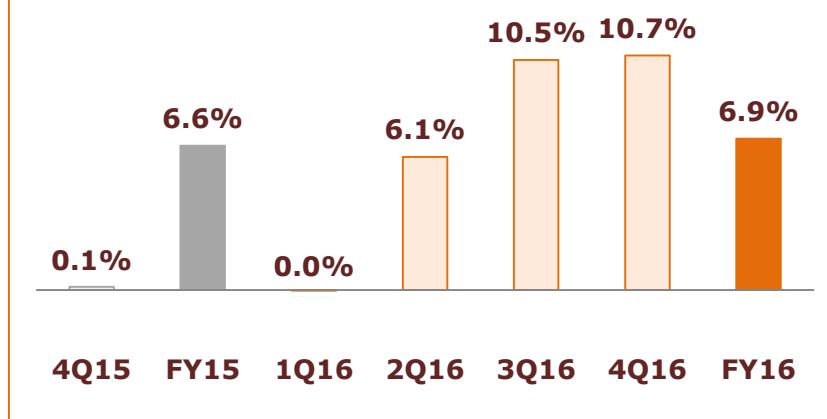
# 4Q and FY 2016 Operational Highlights (Megamart Division)

## Store openings (net)

1 net openings in 2015  
4 net openings in 2016

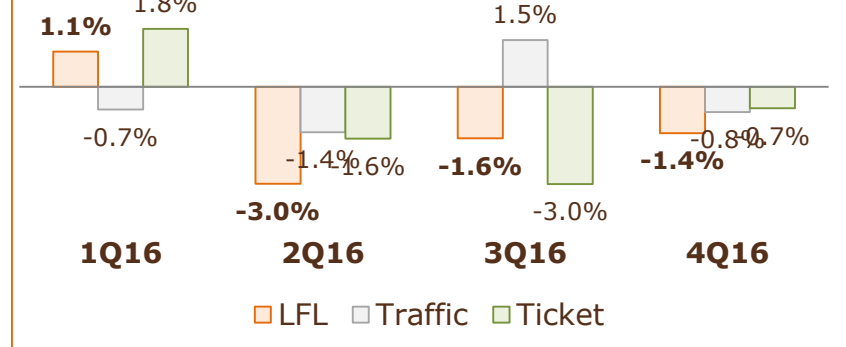


## Retail revenue growth, %



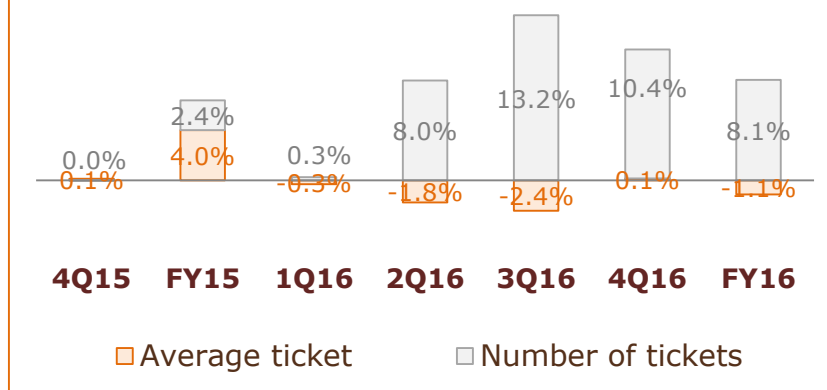
## LFLs dynamics

FY16 LFL: -0.6% incl  
-0.7% ticket growth  
+0.1% traffic



## Revenue growth composition, %

(LFL and non-LFL stores)



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Where the home starts

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**ВИКТО́РИЯ**

**МЕГАМАРТ**

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