



# Perekrestok

## supermarkets



Perekrestok delivered impressive results in 2018, with a record 122 new stores opened and the highest LFL performance in X5 Retail Group. Our ongoing improvements in CVP, adaptation of the assortment, effective marketing and promo, as well as the refurbishment programme, which brought 86% of the store base to the updated concept, all contributed to Perekrestok's success last year. With improved quality for our fresh and fruits and vegetables assortments, expanded ready-to-eat offerings, an increased focus on healthy foods and popular private-label brands, Perekrestok is offering Russian consumers a high-quality and convenient shopping experience combined with attractive prices.

Our omnichannel offering, Perekrestok Online, has grown very quickly as well, with over 2,600 orders per day being handled from customers in Moscow and St Petersburg in December. While improving the in-store experience and expanding online, we are also developing Perekrestok's popular loyalty programme with more personalised offers, a focus on the mobile app and partnerships with a wide array of leading Russian companies.

As we grow our operations, we remain vigilant about efficiency and service quality, with an increased emphasis on our NPS performance.

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**Vladislav Kurbatov**

General Director of Perekrestok



Перекресток  
СУПЕРМАРКЕТ

PEREKRESTOK  
SUPERMARKET



Perekrestok was one of the first modern food retailers in Russia, and it remains Russia's largest supermarket chain. With a focus on Russia's most affluent regions, Perekrestok has updated its CVP to meet customers' ever-changing needs and is nearing completion of a network-wide refurbishment programme. Perekrestok added 122 stores and 144,296 square metres of net selling space in 2018, setting yet another new record. Our omnichannel offering, Perekrestok Online, also expanded into St Petersburg and finished the year with three dark stores. Our supermarket format is constantly innovating and leveraging big data analytics to improve performance, with big-data-driven targeted marketing initiatives and planned implementation of technologies like automated video queue monitoring.

Perekrestok supermarkets offer an assortment of 8,000-15,000 SKUs, with an average selling space of 1,028 square metres.

## 2018 performance highlights

### Net retail sales:

**RUB 231** bln  
+23.5% year-on-year

### Stores in operation:

as of 31 December 2018

**760**  
+19.1% year-on-year

### Selling space:

as of 31 December 2018

**782** ths m<sup>2</sup>  
+22.6% year-on-year

### LFL traffic growth:

**6.2%**  
the highest growth rate among  
X5 Retail Group formats for the second  
year in a row

### Stores refurbished:

**37**

### Customer visits:

**505** mln  
+24.2% year-on-year



# 2018 strategic highlights

## Record pace of expansion

of the supermarket format: the 122 stores added in 2018 is the largest number in Perekrestok's history and significantly ahead of the format's peers

## Refurbishment programme

nearing completion with 37 stores refurbished in 2018 and 86% of the store base operating under our new concept as of 31 December 2018 (vs. 73% as of 31 December 2017)

## Highest-potential regions

remain our main focus (Central and North-Western Federal Districts) due to their economic potential, with approximately 60% of stores opened in Moscow, the Moscow region and St Petersburg and the Leningrad region

## Adapted assortment and CVP

with a focus on quality and assortment in fresh, fruits and vegetables, and development of the ready-to-eat category

## Expanded private label

accounted for 6.5% of revenue in 2018, with unique and exclusive brands that cover all price segments

## Efficiency initiatives

brought about improvements in operational expenses, shrinking costs and selling, general and administrative (SG&A) expenses

## Online service growth

continued, with the opening of two additional dark stores, expansion into St Petersburg and a total of 408 thousand orders in 2018

## The loyalty programme

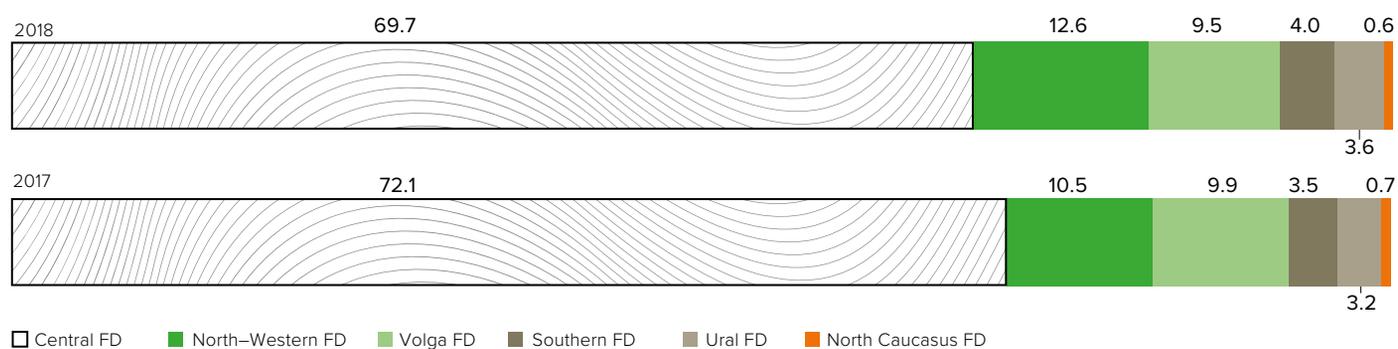
continued to grow, with 5.5 million active cards and 49% penetration in traffic in December 2018



### Key operating results

	2018	2017	2016	2015	2014
Number of stores, eop	760	638	539	478	403
Selling space '000 m <sup>2</sup> , eop	782	637	549	484	416
Net retail sales, RUB bln	231	187	155	130	116
Customer visits, mln	505	407	350	304	302

### Perekrestok net retail sales by region, %



# Strategic Priorities

Our priorities	What we are doing	What we plan to do
<b>Continue expansion with focus on strengthening position in most attractive markets</b>	<ul style="list-style-type: none"> <li>• Added 122 new stores in 2018 vs. 99 in 2017</li> <li>• Focused on most attractive regions for Perekrestok’s supermarket CVP, with 63% of new openings in Moscow, St. Petersburg and other cities with a population of over 1 million people</li> <li>• Growth remains sustainable, with Perekrestok delivering record LFL performance and impressive traffic growth to 505 million visits in 2018, up from 407 million in 2017</li> </ul>	
<b>Continue to implement refurbishment programme</b>	<ul style="list-style-type: none"> <li>• 37 stores were refurbished in 2018, with 86% of Perekrestok stores operating under the new concept as of 31 December 2018</li> <li>• Average LFL revenue growth for a refurbished store (after recovery period) is 14%-16%</li> </ul>	<ul style="list-style-type: none"> <li>• Further expand the business with the aim of being closer to customers</li> <li>• Continue adapting assortment to meet target audience demand with focus on fresh, fruits and vegetables and ready-to-eat categories</li> </ul>
<b>Focus on CVP to meet demand from core customers, while expanding the overall base</b>	<ul style="list-style-type: none"> <li>• Further adapted assortment to differentiate from competition</li> <li>• Expanded and optimised key categories like fresh, fruits and vegetables, healthy food</li> <li>• Expanded private-label offering with unique assortment</li> <li>• Upgraded and expanded offering in ready-to-eat category</li> <li>• Client-centric metrics added to employee motivation programme</li> </ul>	<ul style="list-style-type: none"> <li>• Strive to ensure customers feel comfortable and have a positive shopping experience</li> </ul>
<b>Implement updated private-label strategy</b>	<ul style="list-style-type: none"> <li>• Expanded customer feedback with regular tastings and surveys</li> <li>• Optimised assortment to improve customer retention</li> <li>• Enhanced communication with customers on private-label assortment</li> <li>• Focused on product quality</li> </ul>	<ul style="list-style-type: none"> <li>• Achieve best-in-class service and further increase NPS</li> <li>• Develop omnichannel business</li> <li>• Implement targeted loyalty programme with personalised promos</li> </ul>
<b>Focus on operational efficiency</b>	<ul style="list-style-type: none"> <li>• Fine-tuned regional model by assigning store format based on selling space and net retail sales</li> <li>• Reduced opening capex and ongoing opex for regional stores</li> <li>• Improved logistics with reduced cost per box and better shelf availability</li> <li>• Developed new incentivisation scheme for in-store personnel with focus on productivity</li> <li>• Set up educational centre for cashiers</li> <li>• Improved accuracy of promo planning</li> </ul>	
<b>Move towards omnichannel approach, with online supermarket in core markets</b>	<ul style="list-style-type: none"> <li>• Successfully expanded online offering to St Petersburg</li> <li>• Currently operating two dark stores in Moscow and one in St Petersburg to support online operations</li> <li>• NPS of 83% reflects high level of customer satisfaction</li> <li>• Handled over 2,600 orders per day in December 2018</li> <li>• Further extended assortment to 25,000 own SKUs and another 25,000 partner SKUs in St Petersburg</li> </ul>	
<b>Further develop loyalty programme</b>	<ul style="list-style-type: none"> <li>• Expanded loyalty programme to 5.5 million active card holders, and 49% penetration in traffic</li> <li>• Loyalty customer average ticket is RUB 705 vs. RUB 521 for non-loyalty customers</li> <li>• Loyalty programme is accessible through mobile app, enhancing omnichannel customer experience</li> </ul>	



## Accelerating growth with successful CVP

Perekrestok remains one of the fastest-growing supermarket chains in the market. We set a record for new openings in 2018 with 122 net new stores. While accelerating the pace of expansion, we have enjoyed strong consumer demand for our CVP and have continued to deliver the best LFL performance in X5 Retail Group, with sales and traffic up by 5.9% and 6.2%, respectively. We also achieved record growth in traffic in 2018, with 505 million customer visits, compared to 407 million in 2017.

While we have increased the pace of expansion, our primary focus is on further adapting Perekrestok's CVP and opening stores in major urban centres in our core regions of Central and North-West Russia. Our December 2017 purchase of 32 O'Key supermarkets, 18 of which were in St Petersburg, has also produced strong results, with net retail sales at the rebranded stores performing at approximately 17% above target levels.



## Refurbishments delivering results

Perekrestok's refurbishment programme is one of our strategic priorities as we continue to upgrade the format to meet the latest standards in modern retail, providing high-quality and comfortable service to our customers in every supermarket we operate.

Our refurbishment programme continued in 2018, with 37 stores opened after refurbishment during the year. Together with new openings, this brought the total share of stores operating under our new concept to 86%. Refurbishments are key to our CVP and can have a significant impact on store performance. In 2018, we saw the average recovery period for a store take about five months, after which LFL sales grew by 14%-16% on average.

### 2018 highlights

Number of stores refurbished in 2018	<b>37</b> vs. 76 stores in 2017
Share of stores operating under new concept (as of 31 December 2018)	<b>86%</b> vs. 73% at year-end 2017
Average duration of store closure	<b>41 days</b> in line with 2017
Average sales recovery period	<b>5 months</b>
Average LFL sales growth (after recovery period)	<b>14%-16%</b>



## Adapting CVP to evolving customer needs

Client-centricity is a core element of Perekrestok's CVP, and we are constantly adapting our offering in response to demand. We also strive to ensure that all of our employees share these values, which is why we introduced a new in-store employee incentivisation programme that includes client-centric metrics, including NPS.

At the same time, assortment is key to our CVP: we are innovating and adapting our offering to further differentiate Perekrestok from its competition. We have expanded the fresh, fruit and vegetables and healthy food categories in response to consumer trends in Russia.

Ready-to-eat is another important and growing category for X5, and for Perekrestok in particular. While we have taken steps to increase and improve the assortment in this category, we also plan to launch our own kitchen factory in mid-2019, which will allow us to significantly expand and adapt our offering for customers.

These measures have helped us to deliver continued growth in NPS performance, and Perekrestok is perceived as having one of the best price/quality ratios among supermarket peers.



## Improving operational efficiency

Operational efficiency is a constant priority for Perekrestok. Some of the key areas that we focused on in 2018 included improving our regional model, logistics, personnel and inventory planning.

Our efforts have produced results:

- Regional store openings now require less capex, and we are testing stores with reduced opex
- Logistics costs per box have declined by 9.5% year-on-year to RUB 26.5 per box, and we have improved shelf availability
- Our incentives scheme for in-store personnel and our educational centre for cashiers have contributed to a significant decrease in staff turnover, which dropped 14 percentage points during the year
- We have improved the efficiency of promo planning, helping us to keep inventories in line with demand

These successful efforts have helped us to achieve sustainable cost savings, and we continue to seek more ways to further enhance Perekrestok's efficiency.



## Private label for all price segments

Perekrestok has a well-developed private-label assortment that contributed 6.5% to the format's net retail sales in 2018, up from 5.4% a year earlier. Our private-label goods cover all price segments, from Prosto! at the lower end to exclusive offerings like Verkhovye dairy products and Green Line health foods.

Green Line, which was introduced in response to growing demand for healthy foods from our customers, is currently on offer in 148 Perekrestok stores. Stores that offer this new product line are seeing customers visiting more often, specifically seeking this brand.

We are also setting ourselves apart from the competition by offering exclusive, high-quality goods like the Verkhovye line of dairy products. Exclusive private labels like this are an important part of our strategic partnerships with suppliers.

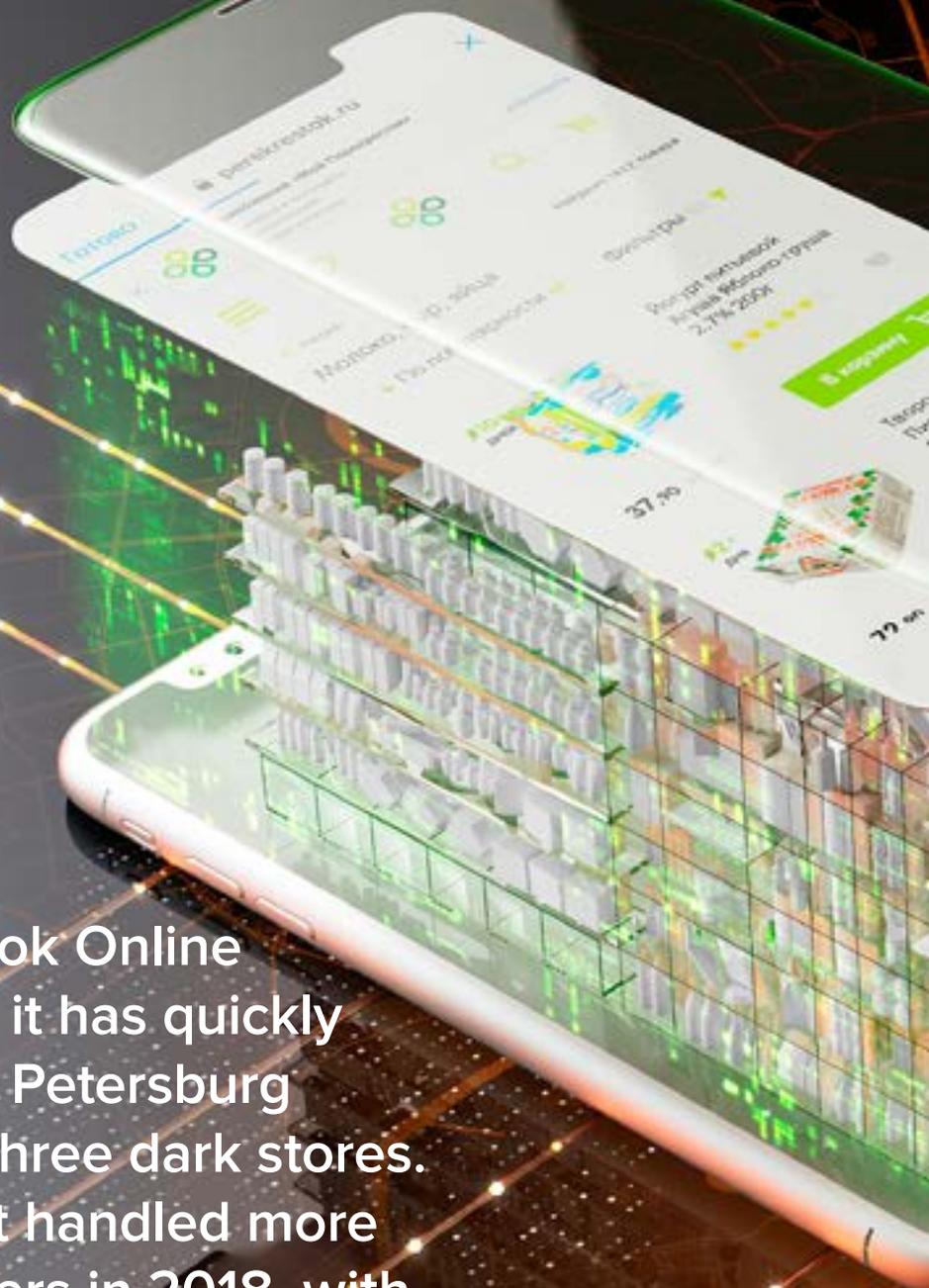
With a wide range of private-label goods on offer, we are constantly focused on improving quality, while also organising regular tastings and surveys to get customer feedback.



	CROSS-CATEGORY BRANDS	CATEGORY BRANDS				
HIGH AND ABOVE-AVERAGE PRICE		Dairy 	Confectionery 	Healthy 	For kids < 3 years 	UNIQUE ASSORTMENT
MEDIUM PRICE		Dairy 	Ready-to-eat and Ready-to-cook 	Homeware 	For kids < 3 years 	WIDE ASSORTMENT OF EASILY ACCESSIBLE QUALITY PRODUCTS
		Confectionery 	Fish 	Beauty 	For kids 4-7 years 	
LOW PRICE						OPPORTUNITY TO SAVE ON EVERYDAY PURCHASES

# Bringing Russia's #1 supermarket online

We launched Perekrestok Online in Moscow in 2017, and it has quickly grown, expanding to St Petersburg in 2018 and operating three dark stores. Our online supermarket handled more than 408 thousand orders in 2018, with the number more than doubling from 93 thousand in Q3 2018 to 200 thousand in Q4 2018.





# Perekrestok Online and other omnichannel initiatives

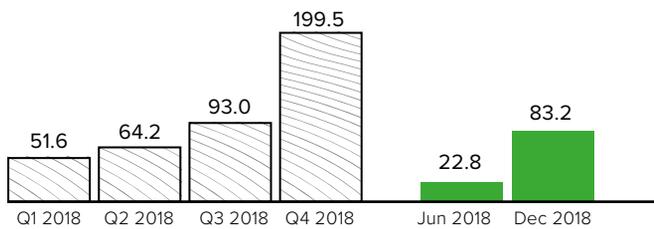
With the launch of Perekrestok Online in 2017, we became the first supermarket chain in Russia to implement a full omnichannel sales model. With operations in Moscow and St Petersburg, Perekrestok Online has been highly successful across all key metrics. Customers who use our online service spend more on average, with an average spend per month of RUB 6,700, increasing to RUB 11,600 among online store users.

In order to support Perekrestok Online's growing operations, two dark stores (warehouses located within city limits that are specially designated to support online orders) were opened in 2018: one in Moscow and one in St Petersburg. In 2018, we expanded our assortment, with Perekrestok Online in St Petersburg offering around 30,000 SKUs. The service handled a total of 408 thousand orders during the year, with nearly half (close to 200 thousand) coming in the fourth quarter. In December 2018, Perekrestok Online handled an average of over 2,600 orders per day.

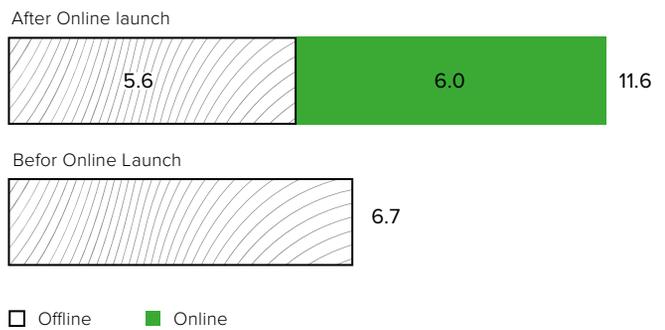
Going forward, we aim to pilot a click-and-collect service, express delivery with orders assembled in-store to offer a better variety of services to our customers and determine the most profitable operating model for the Company. We also aim to develop a B2B service to supply food to restaurants or offices. We plan to further increase the assortment with new categories like pet food, baby goods, health and beauty products and alcoholic beverages.



Number of orders, ths



Average customer spending per month, RUB ths





**2.3 times**

increase in website traffic  
(compared with 2017)

**3.2%**

conversion rate  
(vs. 1.3% in 2017)



## Expanding our loyal customer base

Perekrestok's loyalty programme grew to 5.5 million cards issued as of the end of 2018, with 49% penetration in traffic and 63% penetration in sales.

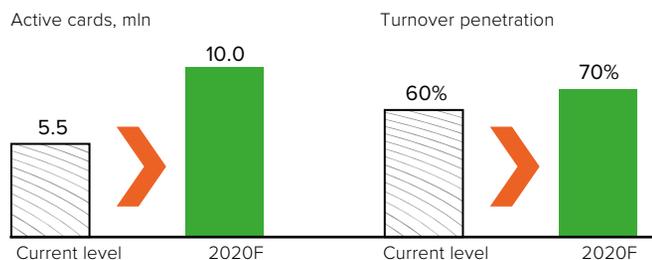
Partnerships are one of our key tools for expanding the Perekrestok loyalty programme: we currently have over 120 partners, including Aeroflot Russian Airlines, Alfa-Bank, S7 airlines, Tinkoff and other major Russian consumer companies.

We are developing our loyalty programme in step with our expanding omnichannel offering: the Perekrestok mobile app, which customers can use to order goods online and get information in-store, also provides information about loyalty points and offers.

### Average ticket, RUB



### Loyalty card penetration





## Targeted marketing

Perekrestok’s targeted marketing campaigns, which are run through the Club Perekrestok loyalty programme, have contributed to growing sales, increased traffic and higher average checks. As a form of promo, targeted campaigns also offer a higher commercial margin than traditional promotions. With 5.5 million active users at the end of 2018, the Club Perekrestok loyalty programme grew by 31% year-on-year.

Perekrestok’s targeted marketing and Club Perekrestok loyalty programme helped the format earn an additional RUB 5 billion in retail turnover in 2018, which is 2% of its net retail sales for the year. This represents a 47% increase over the impact on sales in 2017.

For our personalised promos, we work with suppliers to develop tailored marketing partnerships. These enable suppliers to inform Perekrestok loyalty card holders about new products or promos, helping them improve loyalty among existing customers while also reaching new audiences. We work together with over 80 suppliers from a wide range of sectors, ranging from dairy and soft drinks producers to personal hygiene products and even computer games.