FIX PRICE

CONFERENCE CALL TO DISCUSS FIX PRICE Q2 2021 RESULTS

Company: Fix Price

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Speakers:

Dmitry Kirsanov, Chief Executive Officer

Anton Makhnev, Chief Financial Officer

Elena Mironova, Investor Relations

Participants asking questions:

Henrik Herbst, Morgan Stanley

Elena Jouronova, J.P. Morgan

Nikolay Kovalev, VTB Capital

Moderator

Ladies and gentlemen, thank you for standing by, and welcome to the Fix Price H1 2021 operating review financial results conference call. Throughout today's presentation, all participants will be in listen-only mode. After the presentation, there'll be an opportunity to ask questions. Without further ado, I would now like to pass the line to Elena Mironova. Elena, the floor is yours.

Elena Mironova, Investor Relations

Thank you, Michael. Good afternoon, everyone, and thank you for joining us. On the call with me today are Dmitry Kirsanov, Chief Executive Officer, and Anton Makhnev, Chief Financial Officer. Dmitry will take us through a review of the business, including Q2 and H1 2021 performance, followed by Anton, who will discuss our financial performance and guidance in more detail. After closing remarks from Dmitry, we will take your questions.

Let me caution you that this presentation includes statements that are or may deemed to be forward-looking statements with respect to the financial conditions, results, operations, and business of Fix Price Group. For the full disclaimer, please refer to page 2 of the earnings presentation published on our website at ir.fix-price.com in the Results Center section. Now it's my pleasure to turn the call over to Dmitry, our CFO. Dmitry Nikolaevich, the floor is yours.

Dmitry Kirsanov, Chief Executive Officer

Thank you very much, Elena. Good morning and good afternoon, dear colleagues. We believe we delivered very strong financial results for H1 2021.

This is our first IFRS results as a public company. The results support our belief that we are pursuing the right strategies to enable sustainable growth. This ensures the resilience of our business model and creates material long-term shareholder value, and it also lays a solid foundation to further cement our market leadership and capitalize on consumer recovery in non-food discretionary spending.

Let's talk more about our results for the quarter, as well as H1 2021. The headline figure for the half-year was a revenue increase of 28.1% to RUB106.1 billion, driven by LFL sales and an acceleration of the store rollout program. We recorded our 18th consecutive quarter of double-digit LFL sales growth, which stood at 11.8% in Q2 2021. Our EBITDA went up to RUB19.8 billion. As to the EBITDA margin, we are an industry leader with 18.7 %, which is only 60 bps below the abnormally high level of last year, and it is 138 bps above the same period of pre-COVID Q2 2019. We accelerated our store openings. We opened a net 418 new stores, and we entered 65 new localities. To do this, we have increased our plans for openings. Right now, it is 730 stores for FY 2021.

The board of directors announced a dividend payment of RUB11.5 per GDR or share for a total of RUB9.8 billion, and this is equivalent to 100% of IFRS net profit. It is well above the minimum level set out by the dividend policy, which emphasizes our confidence in the outlook for our business and our commitment to achieving the guidance we announced during the IPO.

As to the macro, I would like to underscore the following. First of all, freight costs have increased by more than 5 times since the end of 2020 amid continued issues. We also see rising commodity prices and FX volatility which led to accelerated inflation. Prices have increased for all retailers. As a result, consumers are somewhat frustrated by the rising prices and seem to be delaying impulse discretionary purchases, switching to food items and non-food essentials.

On top of that, in June-July 2021, abnormally hot weather in Russia during the holiday season when people have started traveling abroad and a rise in new COVID-19 cases affected the frequency of visits, but we are successful in navigating these headwinds thanks to our flexible business model, and we have a number of tools that enable us to adjust to the environment. First and foremost, is our multiple price point architecture. We introduced 2 new price points earlier this year to mitigate pressure on the gross margin, and we are actively working with our products. We are rotating them or moving them between price points to defend the margin.

Coupled with our fast assortment rotation, these factors act as a natural hedge, helping us gradually move our assortment to higher price points and adjust the product mix. Of course, it doesn't happen overnight. Now we are in the middle of the process, and our business adjusts to the new market environment fast. We can also adjust our procurement geography. With the current cost of sales for imported goods, it is becoming more efficient to source domestically. We actively buy plastic and cardboard products, as well as seasonal products, in Russia. Continued improvements in operating efficiency and operating leverage also supports our financial performance.

Despite the challenging environment, we increased our LFL sales by 12% on the back of traffic growth of 22%, while the average ticket went down by 8%. Notably, compared to the pre-COVID period of Q2 2019, LFL sales grew by 25%, and we also saw 3% increase in LFL traffic and 22% growth in the average ticket. As expected, April 2021 was very strong versus the low of April 2020. Last year, Fix Price stores remained operational while most of the other HORECA outlets were closed. Some moderation in May and June 2021 had to do with the tough comps of 2020 as well as abnormally hot weather in June 2021.

We also see a change in consumer behavior. We see that real disposable income goes down and the share of food has gone up to 29% in retail sales compared to 25% last year. Our priority is to respond to our customers' needs, so we focused on promotion of lower-priced food products, and this supported the traffic and maintained the perception of Fix Price as a retailer of choice offering the best value for money. Other categories also demonstrated double-digit growth, and those were seasonal and homeware items. All categories delivered positive LFL sales in H1 2021.

While our advertising campaigns focused on food and seasonal items and low-price points, we continue to introduce new items in new price points such as apparel, for example, sports trousers. In electrical devices, we have a lot of lighting and small appliances, as well as kitchenware or silicone-made dishes. All of those are below $5, which creates an understandable wow effect. As a result, the share in sales of the new RUB 249 and RUB 299 price points reached almost 4% for H1 2021, while the share of price points above RUB 100 grew to almost 24%, compared to 17% for H1 2020 and 19% for FY 2020.The average ticket of RUB272 was up by 4%, and that reflects the impact of the new price points and their potential.

We see that our loyalty program is one of the key drivers of our LFL, and the average ticket is 1.8x higher for loyal customers. In April, we improved the terms of the program, and this helped us increase the number of loyal customers by 2.3 million from the beginning of 2021 to 13.8 million. Transactions with loyalty cards accounted for 42% of total retail sales in H1 2021, and this is against 34% in the same period of 2020.

Now let's talk briefly about the performance after the reporting date. We entered July with softer LFL and challenging trading conditions on the back of the toughest comp of last year, as well as abnormally hot weather. Despite the start of international travel and the outflow of some of our consumers abroad, we still see that we are getting positive effect in our sales, in particular in non-food. In August, we see strong LFL in non-food and seasonal categories. We believe this shows the progress on our assortment and marketing initiatives.

By way of summing up, I would say that I'm really proud of our results, which reflect strong and disciplined efforts across many fronts. We operate in one of the most attractive sectors of retail, and I believe that with our EDLP business model, fast decision-making, and customer-focused initiatives, we are best positioned to benefit from the recovery of discretionary spending in the coming months, also because of the government stimulus for the consumer.

As to another strategic priority, we have started a major project to align our ESG performance and disclosure with best international practices, and we expect to make more progress in ESG. We have started working with an ESG consultant. We started an audit of the current ESG practices at Fix Price. We believe that ESG and corporate performance intrinsically intertwine, and we remain committed to integrating ESG factors into our business. We do hope that we will be able to present our new ESG strategy and our first sustainability report to the market next year.

With that, I will hand over to Anton for a financial overview and update on our guidance.

Anton Makhnev, Chief Financial Officer

Thank you very much, Dmitry, and good day to you, everyone. Let me cover some important financial details. As Dmitry discussed sales and the key financial highlights of the quarter, I will start with gross profit, which increased by 22% y-o-y to RUB33 billion for H1 2021, supported by strong retail and wholesale revenue. The gross margin decreased by 146 bps y-o-y to 31.2% amid a change in the product mix towards food items and pressure on the cost of sales from transportation, rising commodities prices, and FX volatility. We are mitigating this pressure by moving assortment within the price points, product reengineering, and fast assortment rotation.

I would like also to note that the H1 of 2020 was a very tough comp, as the gross margin was further supported by high demand for non-food items amid the onset of the pandemic, with strong home consumption trends. Fix Price stores remained open during the lockdown last year and enjoyed additional demand for higher margin discretionary products. Notably, in comparison to the pre-pandemic environment of H1 2019, the gross margin improved by 21 bps, despite significant macroeconomic headwinds.

Moreover, as we have previously noted in our communications to the market, we do not consider gross margin to be a major KPI for us. We are rather focused on maximizing absolute EBITDA and absolute net profit. In the current environment, we are focusing on supporting traffic by boosting sales of food, personal care and household products, which yield somewhat lower margins compared to discretionary non-food items. It is taking time for the consumers to get used to the new normal and revert to pre-pandemic shopping patterns, but when this happens, we should be best positioned to benefit from increased demand for non-food items.

Moving on to cost, numerous efficiencies on SG&A side partially mitigated pressure on the gross margin. The main line items in the SG&A were personnel and rent. We continue to increase staff productivity, and with significant top-line growth, we benefited from operating leverage on headquarters staff cost. This enabled us to reduce staff costs by 47 bps s y-o-y to 9% of revenue.

We also continue to remain very well-positioned in negotiations with landlords in the post-COVID environment. Rental expenses under IAS 17 decreased by 13 bps to 5.2% of revenue. Interestingly, in absolute terms, the average cash rent per store in H1 2021 was 6% lower than 2 years ago in H1 2019 ... I'm repeating, I'm talking about the absolute cash rent per store now and 2 years ago. Rental expense under IFRS 16 decreased by 22 bps to 0.7% of revenue. The reduction in the average lease rate on variable leases, as well as the overall reduction of the variable component in operating leases, led to a 3.4% decrease in rental expenses to RUB708 million.

On the other SG&A items, bank charges increased by 4 bps to 1.1% of revenue, driven by continued growth in the share of non-cash payments with higher commissions on bank card transactions compared to cash transactions. Everyone now is having to adapt to the global trend of switching to bank cards from cash, and we are currently looking into the options to cut our expenses on non-cash transactions.

Utilities and advertising costs as a share of revenue remained fairly stable at 0.3% of revenue each. Costs for security services were slightly down to 0.7% of revenue. Other expenses increased by 12 bps to 0.5% of revenue due to expansion of the business, and one of the impact of the IPO-related expenses which were partially offset by income received from a depository bank in connection with the IPO. Overall, the SG&A expenses including D&A as a share of revenue were down by 61 bps y-o-y to 12.9%, which positively impacted our EBITDA margin.

EBITDA under IFRS 16 was up by 24.1% to RUB19.8 billion for H1 2021, with the EBITDA margin normalizing by just 60 bps to 18.7% versus the high base of the last year. Notably, we recorded a significant increase of the EBITDA margin of 138 bps compared to the pre-COVID EBITDA in H1 2019. It does reflect significant structural improvements in our operational efficiencies over the last 2 years.

Depreciation and amortization expenses increased by 18.7%, driven by a 19% increase in amortization of right-of-use assets and a 17.5% increase in other D&A. Growth of interest expense to RUB647 million this year reflected an increase in loans and borrowings y-o-y. FX income stood at RUB96 million compared to RUB1.1 billion in H1 2020. The decrease in the FX income this year was due to significantly lower FX gain on revaluation of FX-denominated cash balances that the group had as of the beginning of 2020 and which was denominated in foreign currency.

ETR was up from 24.8 % in H1 2020 to 28% in the reporting period this year due to a deferred tax expense related to future dividend distributions that we are planning to make. Net profit increased by 8.6 % y-o-y to RUB9.8 billion. The net profit margin was 9.2% versus 10.9% H1 2020, and well above the level that we had 2 years ago at 6.4% net profit margin.

Now turning to balance sheet and cashflow, which remains strong and provides flexibility for investing in the long-term and delivering returns to the shareholders. We remain conservative in our borrowing strategy with an adjusted net debt to EBITDA ratio at just 0.4x level, well below the threshold of 1.0x set out in the Group's guidance.

Net trade working capital was up to RUB4.4 billion, compared to RUB1.8 billion as of the middle of the last year, as we took preemptive measures amid dislocations in the international transportation market and purchased safety stock to lock in purchase prices and ensure shelves remain full at all times.

Our CAPEX for the period stood at RUB3.8 billion, up from RUB2.6 billion in H1 2020, reflecting our investments in our network of distribution centers, the high pace of store openings, and the restart of our store renovation program. On the back of this very strong set of results, the board of directors approved a payment of 100% of our net profit as dividends, which is significantly above the base level set by our dividend policy.

Now moving on to guidance for 2021, we are upgrading our guidance for net store openings for 2021 upwards from 700 to 730 stores in order to reflect the accelerated pace of openings in H1 2021. Importantly, our new stores' economics remain very strong, with an average payback period of about 9 months, which makes us comfortable with expansion into our whitespace potential while maintaining our target levels of profitability.

We are committed to achieving our 2021 guidance of LFL sales growth of around 10% and an EBITDA margin in line with the previous performance, though there could be both potential tailwinds and headwinds this year. We continue to cycle through the challenging comparison of 2020, both in terms of top-line growth and margins, and we also continue to operate amid uncertainty regarding freight, FX volatility, commodities inflation, and consumer behavior. On the other hand, H2 of the year seasonally delivers higher margins due to a higher share of non-food sales during the back-to-school season and the run-up to the New Year period. In addition, we start to see the results of our marketing and assortment initiatives that Dmitry was talking about earlier.

On other metrics, we are sticking to our conservative financial policy and expect the net debt to EBITDA ratio to remain below 1x after distribution of the interim dividend for H1 2021. Cash rent as a share of retail revenue and CAPEX as a share of total revenue should improve in the medium term amid further efficiencies of scale and operating leverage.

With that, I will hand over to Dmitry for closing remarks.

Dmitry Kirsanov, Chief Executive Officer

Thank you very much, Anton. In closing, we are very much proud of the team execution and superior results with best-in-class metrics in terms of profitability and growth. As always, we continue to remain disciplined in how we manage our expenses and capital providing consistently high financial results and strategically investing for the long-term. We remain confident in our business model to derive profitable LFL sales growth, helping new stores' returns and long-term shareholder value. With that, I will hand the call over to Michael.

Moderator

Thank you very much, Dmitry. We will now be moving to the Q&A part of the call. If you have any questions, please press *2 on your keypad, that's *2, and wait for your name to be called. If you are dialed in by the web, you may also ask a voice or text question. We will now give a minute or so for the questions to come in.

Thank you very much. Our first question comes from Mr. Henrik Herbst from Morgan Stanley. Please go ahead, sir. Your line is open.

Henrik Herbst, Morgan Stanley

Thanks very much. I had a few questions, please. Firstly, in terms of LFL growth, you were mentioning that you think you're in a very good position now to benefit as discretionary spending picks up again. Are you seeing any signs of that happening, and can you share any color on what you've seen so far in ... I guess we're halfway through Q3. Anything you can share on trading, and ... I guess your guidance of double-digit LFL growth, is it fair to assume that you're, in each of the remaining quarters of the year, also stay above 10%?

The second question, I just wondered if you could talk a little bit more about the stock-up you mentioned and increasing inventory and the drive on, I guess, free cashflow from working capital investment. Should we assume that that reverses in H2 and working capital broadly flat, or can you guide on working capital for H2 2021? The other question on that is, will there be any impact on margins, do you think, from stocking up at perhaps higher shipping costs?

The third and last question is in terms of the mix of your new stores. The mix of international stores has gone up a little bit over the last few quarters. I think it was 26 % in Q2 outside of Russia. How should we think about that mix going forward? Is it fair to assume that the mix of national stores will continue to rise, or is this the level we should bear in mind? Thanks very much.

Dmitry Kirsanov, Chief Executive Officer

Thank you very much. It was quite a big question, so if you don't mind, we will split it into several parts. I will take some of it, and then Anton will step in.

As to LFL dynamics and our guidance for H2 2021 ... Just as we said before, we stick to our previous guidance that we gave pre-IPO. It's 10 % LFL, roughly, and as to the dynamics in the consumer behavior we see small adjustments in terms of people buying more food. As we said before, at the investor meetings and other calls, we always said that during major inflationary shocks, the consumers would primarily buy essentials, and then, within a few months or even weeks, they start buying more non-food. Right now, what we are seeing is exactly that. We see higher sales not just in non-food essentials, but we also see higher sales in seasonal goods, especially given that now the back-to-school season is starting, and it started early this year, and the New Year is coming, importantly, and traditionally, that it contributes a lot to higher sales and also to the high LFL.

We also see a small recovery now, not just in the shop traffic, but we also see that because of the new price points, the 249 and 299, every single month, they're gaining their positions as their share of sales, that they're improving, and this directly drives the increase of the average ticket for us. The average ticket is still going up.

As to our stocks and the need for additional working capital, here, I don't see major changes. Anton might provide a comment on that, but generally speaking, the company is operating with the same financial and operational metrics without significant changes.

Now over to Anton. He will cover the financials in more detail.

Anton Makhnev, Chief Financial Officer

Thank you very much, Dmitry. Hi, Henrik. Let me continue with answering your questions.

With regards to your second question about the inventory buildup, as I'm sure you're aware, there is some seasonality in our net working capital performance throughout the year, and therefore, there is a certain buildup of net working capital towards the middle of the year. This year, performance was also affected by the change in the sales mix towards food products and the somewhat slower sales in the non-food assortment of the recent months. Therefore, it led to some buildup of the working capital and of the net trade working capital. Therefore, as we expect to see normalization in the shopping patterns and a reversal of the current trends, and Dmitry mentioned that we already see some promising signs of that, they are starting to appear, I don't see any reason to believe why our net working capital position in the future will be significantly different from what we had previously. I don't see any fundamental reasons why our sales mix should change, and also, we're not changing the payment terms with our suppliers. That's on your second question.

In terms of the third question, the inventory position doesn't really affect the margins. The thing what's happening with international freight and commodities, etc., it is, to some extent, already reflected in some normalization of the gross margin that you are seeing this year.

On your last question about the new store openings, indeed, we have a slightly higher share of openings on the international market this year, and it would be fair to assume that the overall share of international locations in the overall store mix will be very slowly, very gradually increasing over time, over the medium term.

Henrik Herbst, Morgan Stanley

Great. Thanks very much.

Anton Makhnev, Chief Financial Officer

Sure. Our pleasure.

Moderator:

Our next question comes from the Russian line from Nikolay Kovalev from VTB Capital. Nikolay, your line is open. Please go ahead, sir.

Nikolay Kovalev, VTB Capital

I wanted to ask 3 questions around your results. Thank you very much for the presentation. Number one, about sales, we saw they slowed down from 29 to 28%. I wanted to ask you, despite the fact that you reported impressive LFL growth, should we be cautious for H2 2021 and assume that there might be a certain slowdown, given the high base of last year? Same thing that we saw q-o-q when LFL was similar. This was question one.

Question 2, for the openings, you are guiding for more openings this year. Should we see it as a redistribution between 2021 and 2022, or will the guidance for 2022 stand? And question 3. If we were to look at the remaining quarters until the end, this share of food of 29%, will it stay there, or will there be some normalization, and before back-to-school and the New Year, will we see more non-food?

Dmitry Kirsanov, Chief Executive Officer

Okay, if you don't mind, I will take these questions. I will start with the last question, which is near and dear to my heart, to the change in the sales mix. We expect that in H2 2021 the sales structure will normalize. Traditionally, during H2 we sell more non-food, for understandable reasons, it has more seasons and, therefore, we include more seasonal goods in the assortment mix. We sell more books, printed materials, stationery, New Year decorations, etc., so we expect that the share of food should go down by the end of H2.

As to our openings, we saw an opportunity to open stores with relatively low CAPEX, so we decided to open more stores. Right now, the market is adjusting in terms of real estate, and we see opportunities for taking over excellent locations on attractive terms.

As to the third point, then, store openings in 2022, so far, we are not changing our guidance for 2022. Probably, it makes sense to discuss these plans as we get there. So far, we leave those plans for openings in 2022 intact.

Your first question probably was the most important, changes in the dynamics in the sales q-o-q. The 2020 base is really difficult, because in Q2 and Q3, we had abnormally high LFL growth. Sometimes, it was above 20%. When we were doing our planning and in our marketing and assortment strategies, we took this into account, but it would be right to compare it 6 months to 6 months. We will stick to the guidance that we gave at the IPO time, including the rate of the sales growth, but comparing q-o-q probably would be incorrect.

Anton Makhnev, Chief Financial Officer

There is one more thing that I would like to add, Nikolay. With regards to the store openings and the acceleration that we announced today from 700 to 730 stores. When we look on a full year basis for 2021, we expect that it will be driven by a higher pace of openings of franchising stores.

In terms of our company operated stores that we open and buy ourselves and where we invest cash as CAPEX, we plan to stay within our internal targets which are set in 2021 budget. However, we are seeing higher pace of openings, and we expect that this higher pace of openings will continue into H2 2021 by our franchising partners. That's their decision. From our company's perspective, we don't see any reason to limit them in their expansion, because it doesn't require any CAPEX from us. They start buying more, and that is essentially free money for us. I would like to clarify where this increase is coming from. We are quite disciplined in our own operations. We stay on track. Our franchising partners are seeing the opportunity, and we are letting them do it.

Nikolay Kovalev, VTB Capital

Yeah, very useful comment. Thank you.

Moderator

Thank you. Once again, we will ... Just asking for a reminder, for any additional questions, that's *2 on your keypad for any additional questions. You may also ask a question using the web. Thank you. Our next question from the Russian line comes from Elena Jouronova from J.P. Morgan.

Elena Jouronova, J.P. Morgan

Hello, everyone. Congratulations with the strong results, and against the challenging environment. As to your LFL guidance, definitely, you are not giving the exact numbers, but if we are thinking of 10% LFL growth for the whole year, it means in H2, the LFL might go below 10%. Is it your basic scenario, or it should not go below 10 % under any scenario? That's my first question.

Anton Makhnev, Chief Financial Officer

Hi, Elena. Let me address your question. We confirm our guidance that we announced at the time of IPO, and that's the 10% area. Therefore, from that guidance, I'm sure you can mathematically calculate what our LFL could be on a theoretical basis in H2 2021. It's worth noting, as I was talking about in my presentation, that we're seeing certain headwinds and tailwinds that we are now navigating through, and there still remains some uncertainty as we are going into H2 2021. Therefore, I would not be giving any firm numbers for the time being, but we will see if we can update you on these developments on our next goals at a later stage.

Elena Jouronova, J.P. Morgan

Okay, good. Thank you very much. The second question is about the gross margin. Can you speak once again about all the factors that will drive it up or down in the H2 2021 against the level that we saw H1 2021? Can you go once again through the summary of factors that will drive your gross margin up and down?

Anton Makhnev, Chief Financial Officer

The factors, I should say, are quite well flagged, and they are quite common for the non-food retail industry globally. Let me start with the headwinds, and that's the macroeconomic backdrop, rising inflation across the board, and the decrease in real disposable income of the Russian consumers that we are currently facing, plus we are still on quite elevated levels in terms of the international freight cost. They went up quite significantly from the levels we've seen a year ago, plus there is certain inflation and increase in commodity prices across the board. As I said, these factors are quite well flagged, and they're affecting non-food retailers and other retailers on a global scale, not just in Russia.

As Dmitry was talking in his presentation, we have a number of factors in our very resilient and flexible business model that allows us to mitigate that. We are reengineering our assortment, and we are gradually seeing when we can reprice either the current assortment after it has been reinvented or get a new assortment and put it to the higher price point in order to sustain our gross margin despite the headwinds.

Seasonally there is a pickup in non-food sales in H2 vs. H1 2021. That's because of the 2 very sizeable seasonal promo activities being back-to-school and the New Year holiday. Typically, because of those activities, H2 yields somewhat higher gross margin vs H1. We also expect that as we invested in building up the inventory levels to make sure that our shelves are full, we also expect that much smaller players in the highly fragmented Russian non-food market will struggle to get a sufficient amount of stock for those quite sizeable and profitable seasonal promo activities.

Therefore, we are saying that the current situation, it is a challenge, but at the same time, it also presents a very significant opportunity for us as the business, and it lays a solid foundation for the increase of our market share in a, as I was saying, highly fragmented non-food market in Russia. Our current initiatives in advertising of low-price products, food products, promoting less expensive items ... We are investing and driving our LFL traffic and traffic in general such that we are the first one who will benefit from the expected recovery of the non-food spending.

Last but not least, it's also worth remembering about our operational efficiency and operational leverage that we have through our SG&A line. I believe our results that we published this morning, they clearly show that we can use it to our benefit throughout the economic cycle.

Dmitry Kirsanov, Chief Executive Officer

If I may add a couple of words to what Anton said about the New Year season and back-to-school, what also matters here amid the backdrop of much higher transportation cost and the shortage of containers, small and medium players just left and gave up all deliveries, and we are the people who stocked up at the right prices at the right time. We have all heard about the problems in the Suez channel, and also other issues. Many are challenged with delivery deadlines, and given our multi-year experience in delivering the goods, we were able to ensure that all of our stores have the right assortment at the right time. As Anton said, we are expecting to benefit from this situation. Importantly, we're not a local player in Moscow, St. Pete, where there are a lot of retailers who can source, but we cover 85 % of Russia. We will be one of the not-so-many retailers who will be able to offer all categories of non-food.

Elena Jouronova, J.P. Morgan

Thank you very much, Dmitry, for this addition. Can I ask you a clarification question about your stocks? Those are the stocks for the back-to-school and the New Year season, or is it the stock that you bought in H1 2021, and then you did not sell it off because the sales were not so strong? A related question, at the end of the year, how do you see the stock turn over time? Will it be similar to 2020 or worse? What do you expect?

Anton Makhnev, Chief Financial Officer

With regards to our inventories, in the end of June, as a normal course of business, we should have already some back-to-school assortment as our seasonal promo starts from mid-July. From that perspective, and then the New Year assortment, it normally appears on the balance sheet around August, September, October. Therefore, it is the stock that was bought during the course of H1 2021, but I wouldn't be using such strong words that you were using that it was bought and it hasn't been sold.

I would like to reiterate that the buildup in our inventories is very modest in comparison with the overall sales that we generated, and the inventory turnover that we have, inventory base, it's still exceptional when we compare our inventory turnover with other best-in-class value retailers globally. With regards to the guidance for the full year, here, I would say that to the extent we see normalization in the shopping patterns that we anticipate to see, then it's very fair to assume that the net trade working capital position should normalize back to normal.

Elena Jouronova, J.P. Morgan

Thank you very much, Anton. I have 2 short clarifying questions. Sorry if I'm asking too much. When you speak about the income from the sublease, how sustainable is this income from the sublease? That's the first question. The second one, which product category was the weakest in H1 2021? That's out of curiosity.

Anton Makhnev, Chief Financial Officer

With regards to other operating income, basically, the 3 main components that constitute this line item in our P&L is the income from subleasing, then it's sale of waste materials from our distribution centers, like paper or like wrapping stretch film, and the third item which has appeared this year, that's an income from the depository bank. I would say that all these line items, they will be ... You should assume them in the years to come ... For example, with the income from depository bank, it is being split and apportioned over 5 years during the life of the facility, then the income from the subleasing, it has been in the past ... Last year, it was very low because of the pandemic. This year, it's up, y-o-y.

With regards to the third category which I mentioned, that's the income from sale of secondary wrapping material, like used paper, etc., it's also worth remembering that because of the commodity cycle that I was also mentioning, the prices went up across the board on commodities, and it also affected the cost of plastic and paper. Therefore, the income that we are getting this year was higher y-o-y on LFL products that we were getting last year. All these factors, they contributed to an increase in this line item in our financials y-o-y.

Dmitry Kirsanov, Chief Executive Officer

Speaking of the worst category, answering your question directly, Elena, with a tongue in cheek, I would say medical products. In 2020, you all understand that this was the time when people got overexcited around personal protection devices, face masks, gloves, you name it, and now, when many people are vaccinated and people have somewhat changed their attitude to COVID-19, these categories have gone down the most.

Speaking more seriously, and talking about the sales dynamics, we view excellent sales in drogerie and non-food essentials, and all the other categories, somewhat gradually, have slowed down their growth. Now we see the reverse. People have adjusted to the new prices, to the new realities. We believe we have gone through 3 months after the prices for non-food went up in the retail outlets, and right now, our shoppers are getting used to the new realities, and the demand for all the product categories is gradually recovering. That's excluding the New Year and back-to-school, because they will grow no matter what in their seasons. Thank you very much.

Moderator

Thank you very much. As I'm seeing no further questions at this point, I would like to pass the line back to the Fix Price management team to conclude the call. Thank you.

Dmitry Kirsanov, Chief Executive Officer

Thank you, Michael. Thank you to everyone who joined us today. Going forward, we are going to report quarterly. We'll publish the operational and financial results for the 9 months in October, and we will be happy to respond to your questions. Please don't hesitate to come to our IR team. You have all of our contact information. Have a great day, everyone. Thank you.