



# **X5 Retail Group**

## **Capital Markets Day**

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## Modern Trade in Russia

CAGR

18%

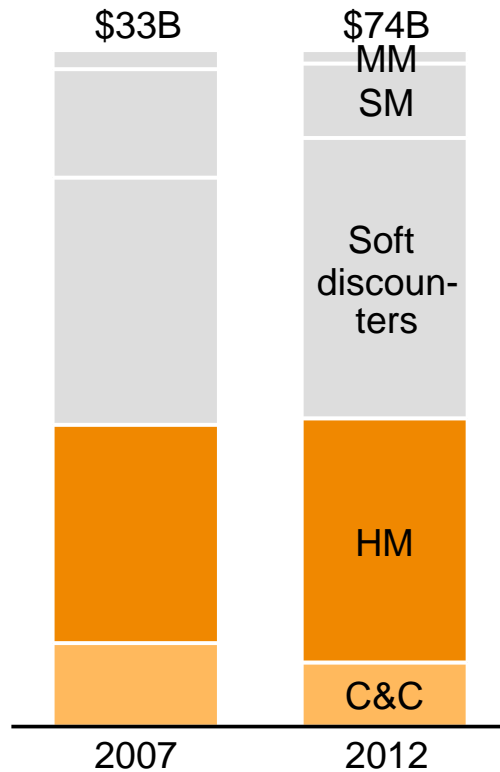
9%

21%

20%

11%

14%



HM selling space, M sqm

2007

1.3

2012

2.5

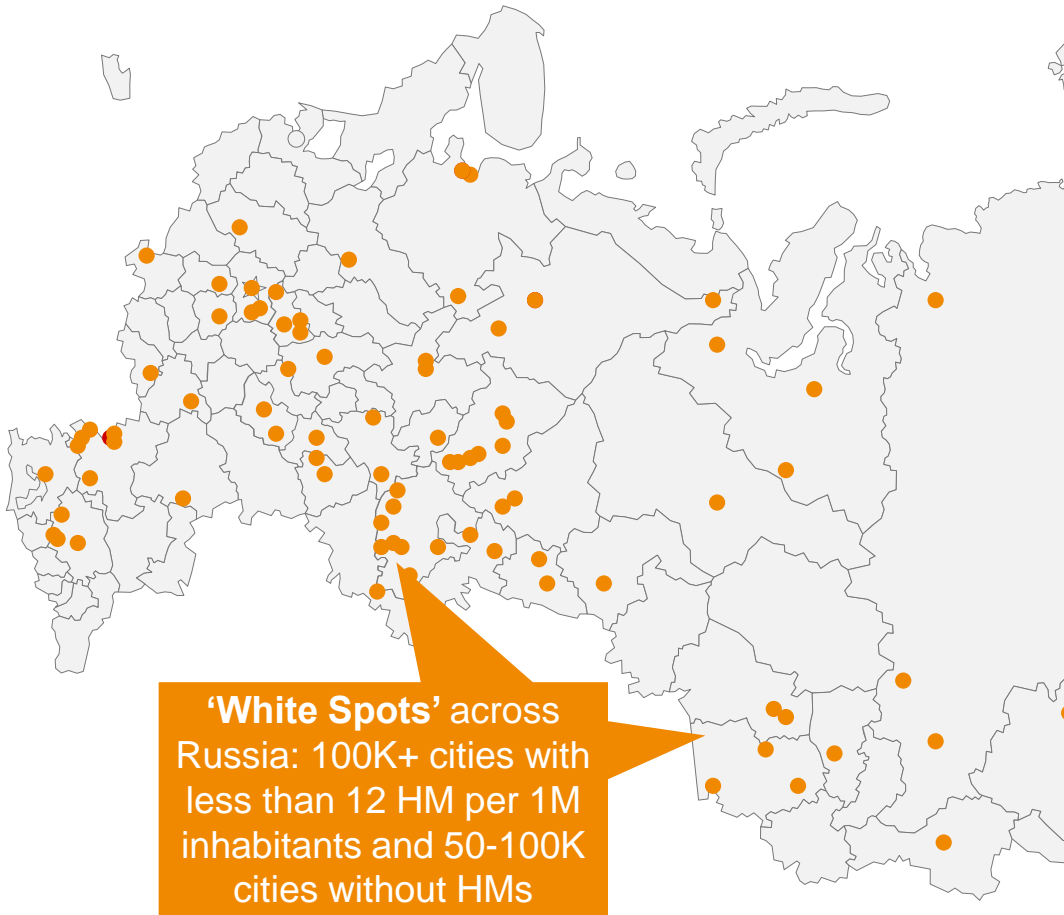
## Hypermarkets are a ~\$30B business

- ❖ **Rapid footprint expansion**  
(from 240 HMs in 2007 to 710 stores today)
- ❖ **Moderate HM penetration in Russia vs. European average**  
(~7 HMs today vs. 18 HMs per 1M urban population)
- ❖ HM penetration in Russia **expected** to reach St. Petersburg level of **~12HMs per 1M people** mid term

Modern retail sales including VAT; Soft discounters include Pyaterochka, Dixy, Magnit, Victoria, Kvartal and Kopeyka; Magnit hypermarkets are in hypermarkets  
Source: Planet Retail; InfoLine report 2013

Short- to Mid- Term expansion opportunities: 150-200 new hypermarkets in Russia

- ❖ ~320 cities: 170 cities\* with 100K+ inhabitants and ~150 with 50-100K inhabitants today
- ❖ Out of them 90-120 cities with potential for expansion
- ❖ In this cities 150-200 store opportunities\*\* midterm by applying crude rule-of-thumb on HM saturation (i.e. St-Petersburg level)

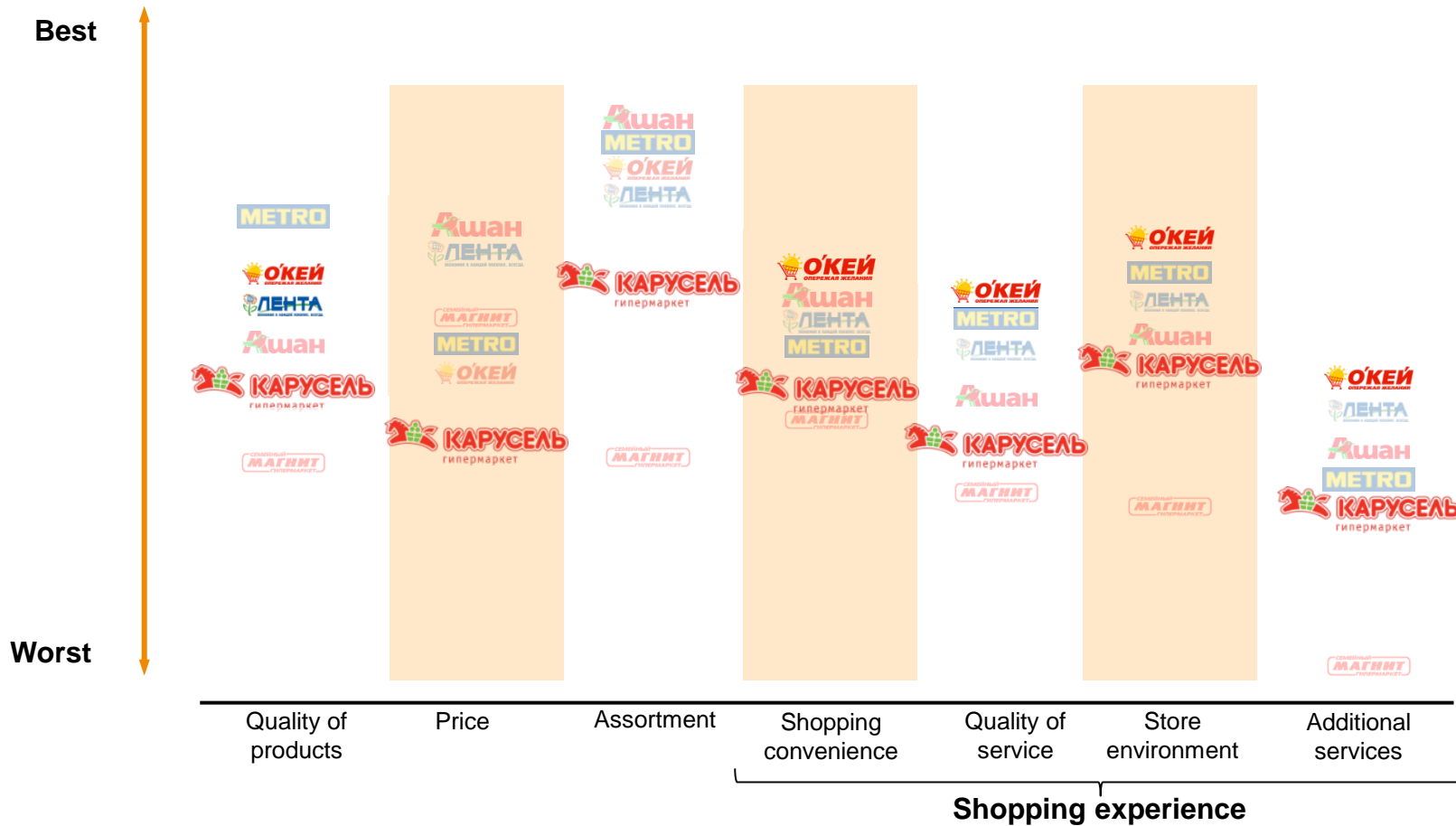


**'White Spots'** across Russia: 100K+ cities with less than 12 HM per 1M inhabitants and 50-100K cities without HMs

	Total number of cities	Possibilities	
		Cities	Stores
Above 1 mln	15	9-10	60-80
0.5-1 mln	22	5-10	5-10
100-500 th.	127	20-30	30-40
50-100 th.	~150	50-70	50-70
	<b>~320</b>	<b>90-120</b>	<b>150-200</b>

\* City including agglomeration with a catchment area within 15km radius  
 \*\*On the basis of Hypermarket saturation today, incl. announced HM openings, based on 'to be' ratio of ~12 HMs per 1M inhabitants and space for 1 HM in 50-100K cities; Far-East, North Caucasus (except Stavropol kray) not considered  
 Source: InfoLine report 2013; companies presentations; Lit. search; Morgan Stanley

Karusel should become more competitive on quality and price and focus on shopping experience



Note: Among customers who shopped in the last 3 months at the respective store  
 Source: Customer survey results N=1105 (Karusel); N=1418 (Auchan); N=1187 (Magnit); N=881 (Lenta); N=869 (O'Key); N=349 (METRO) (July 2013)

## Our Goals

## Progress

Raise brand equity and awareness



- ❖ increased media investment
- ❖ impactful (customer insight based ) advertising

Improve customer experience



- ❖ store standard improvement
- ❖ effective availability control
- ❖ better promo value and unique marketing campaigns
- ❖ review of assortment
- ❖ review of price policy

Develop successful operational model on every level



- ❖ revision of key process and procedures
- ❖ communication improvement

Invest in expansion



- ❖ open new stores while expanding land bank

Develop people



- ❖ new motivation scheme
- ❖ demand for proactive attitude on every level

## Customer-facing processes

- ❖ **Sales**  
(mainly over-the-counter)
- ❖ **Check-out**  
(quality and fast service)
- ❖ **Assistance** (e.g. 'ask me' personnel in the store)
- ❖ **Information desk**  
(at the entrance)
- ❖ **Loyalty card program**

## Store operations support processes

- ❖ **Ordering processes**
- ❖ **Inventory management**
- ❖ **Shelf replenishment**  
(availability on shelves)
- ❖ **Merchandizing standards**  
(presentation on shelves)
- ❖ **Promo execution**
- ❖ **Maintenance**
  - ❖ Store cleanness
  - ❖ Equipment and Layout

## Management processes

- ❖ **Human Resources**
  - ❖ Roles and responsibilities
  - ❖ Personnel recruiting
  - ❖ Retention and talent pool
  - ❖ Payroll, performance evaluations, incentives and bonuses
- ❖ **Communication**
  - ❖ Store and Head Office
  - ❖ Cross-functional
- ❖ **Monitoring and control**
  - ❖ Store KPI tracking system
  - ❖ Mystery shopping
  - ❖ Customer feedback



**Constant personnel training crucial to ensure high standards of customer service and store operations!**

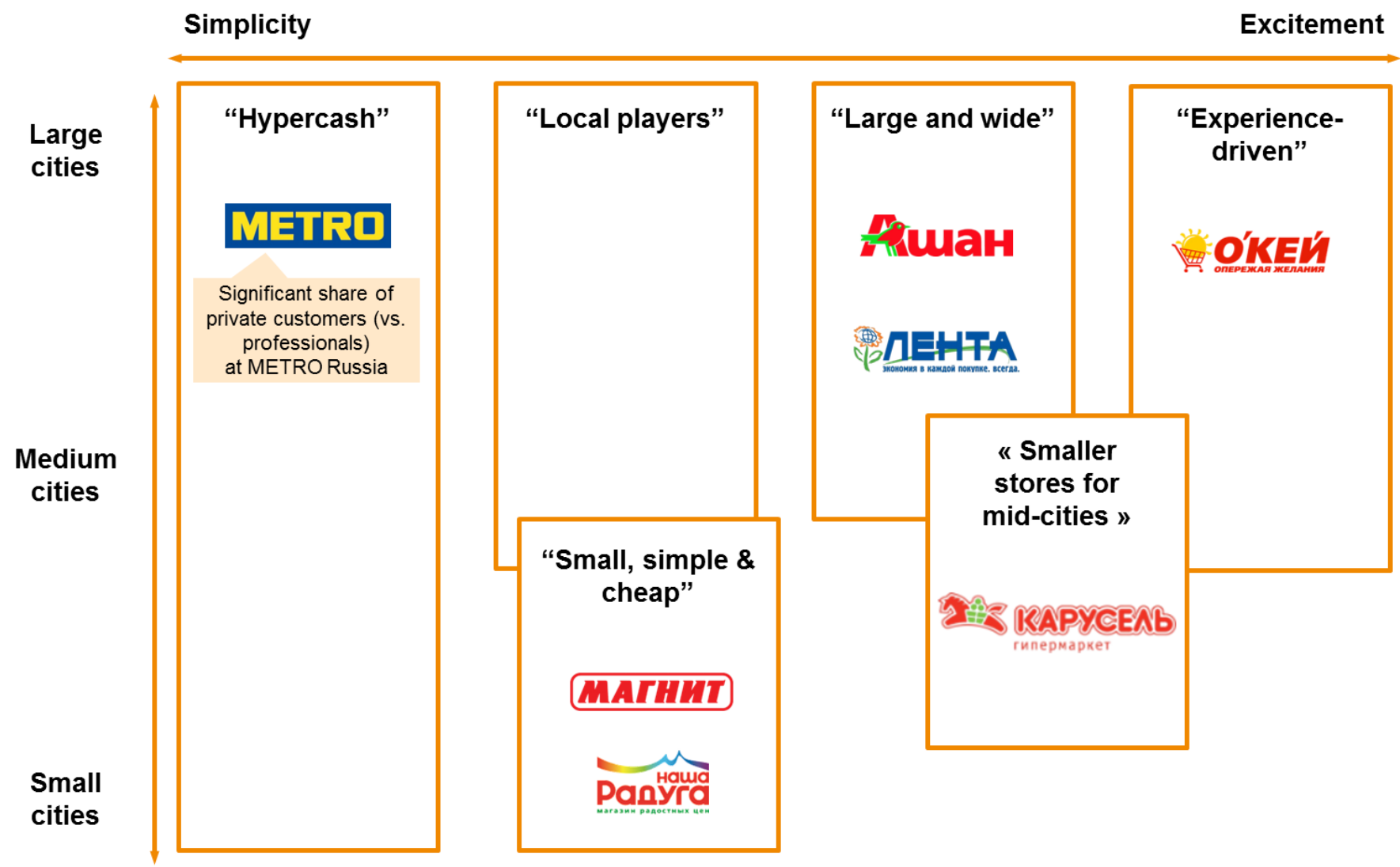
Target Concept

‘Convenient shopping, fair prices’

*Why I shop at Karusel:*

- ✓ I can find **everything I need** for my weekly shopping, and more...
- ✓ I don't overpay – **good value for money**, no need to drive further
- ✓ I am **shopping, not waiting** in lines
- ✓ I have a **Karusel card** which rewards my loyalty and gives me access to exclusive deals





Source: Planet Retail; Analysts reports

Target Concept		
<b>Store size</b>	<b>3 000 – 4 500 m<sup>2</sup></b> (exceptions possible for 2.5, 7K m <sup>2</sup> stores)	
<b>Concept and design</b>	Brand book, focus on <b>Ultra-Fresh / Fresh</b> with emphasis on <b>Own Production + superior shopping experience</b>	
<b>Assortment</b>	<b>15-25K PLUs</b> depending on store size <b>+ 8K additional seasonal PLUs</b> per year	
<b>Pricing policy</b>	Price follower to local key competitor Fewer, but bigger and bolder promotions; Loyalty program	
<b>Location type</b>	<b>Commercial centers (Rent)</b>   <b>Stand-alone 'boxes' (Construction)</b>	
<b>Space allocation</b>	<ul style="list-style-type: none"> <li>• <b>75% Food:</b> focus on Ultra-Fresh</li> <li>• <b>25% Non-Food:</b> less space in Seasonal, focus on consumables</li> </ul>	<ul style="list-style-type: none"> <li>• <b>65% Food</b></li> <li>• <b>35% Non-Food:</b> more space in space Seasonal, access to extended E5 assortment</li> </ul>
<b>Investments</b>	<ul style="list-style-type: none"> <li>• <b>Higher investments</b> (more staff, better store equipment, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Less investments</b></li> </ul>

## Voykovskaya reconstruction : 20% Like-for-Like sales target growth after reconstruction

- ❖ Compliance with the new **brand book**
- ❖ Revised **assortment and merchandising guidelines**
- ❖ Support with **communication campaign**
- ❖ Improved **store environment**



**Our plan is to reconstruct approximately 10 stores annually.**

**Reconstruction works will be performed mainly without store closures, during the low season and within 60 days.**

**Reconstruction works include:**

- ❖ Full replacement of engineering systems,
- ❖ Full replacement of lighting systems,
- ❖ 80% replacement of the equipment,
- ❖ Renewal of store interior,
- ❖ Reconditioning of facades and adjacent territories,
- ❖ Changing of sublease areas to unified standard.

**We expect improved top line growth in the coming years**

2013	2014				2015		
FY	Q1	Q2	Q3	Q4	Q1	Q2	Q3



- ❖ Pricing (price-follower to regional market price-leader)
- ❖ Assortment (focus on Ultra-Fresh and Fresh, etc.)
- ❖ Constant operations improvement (i.e. customer-facing, support and management processes)
- ❖ Improve personnel training and management of the talent pool
- ❖ 'Brand book' compliance and staffing



- |                                                                                                                               |                                                                                                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>❖ Design and preparation</li> <li>❖ Launch</li> <li>❖ Review pilots results</li> </ul> | <ul style="list-style-type: none"> <li>❖ Store experience (re-zoning, lighting, etc.)</li> <li>❖ Closing of non-performing stores</li> <li>❖ Homogeneous 'concept' across stores</li> </ul> |
|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|



- ❖ Prioritize 'white space' cities
- ❖ 'Reserve/block real estate (in CC, land plots) in target regions

Thank you for your attention!