

# VARIETY VALUE RETAIL MARKET STUDY IN RUSSIA

DECEMBER 2020

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# 1. Retail and Variety Value Retail market in Russia

## 1.1 Retail market overview

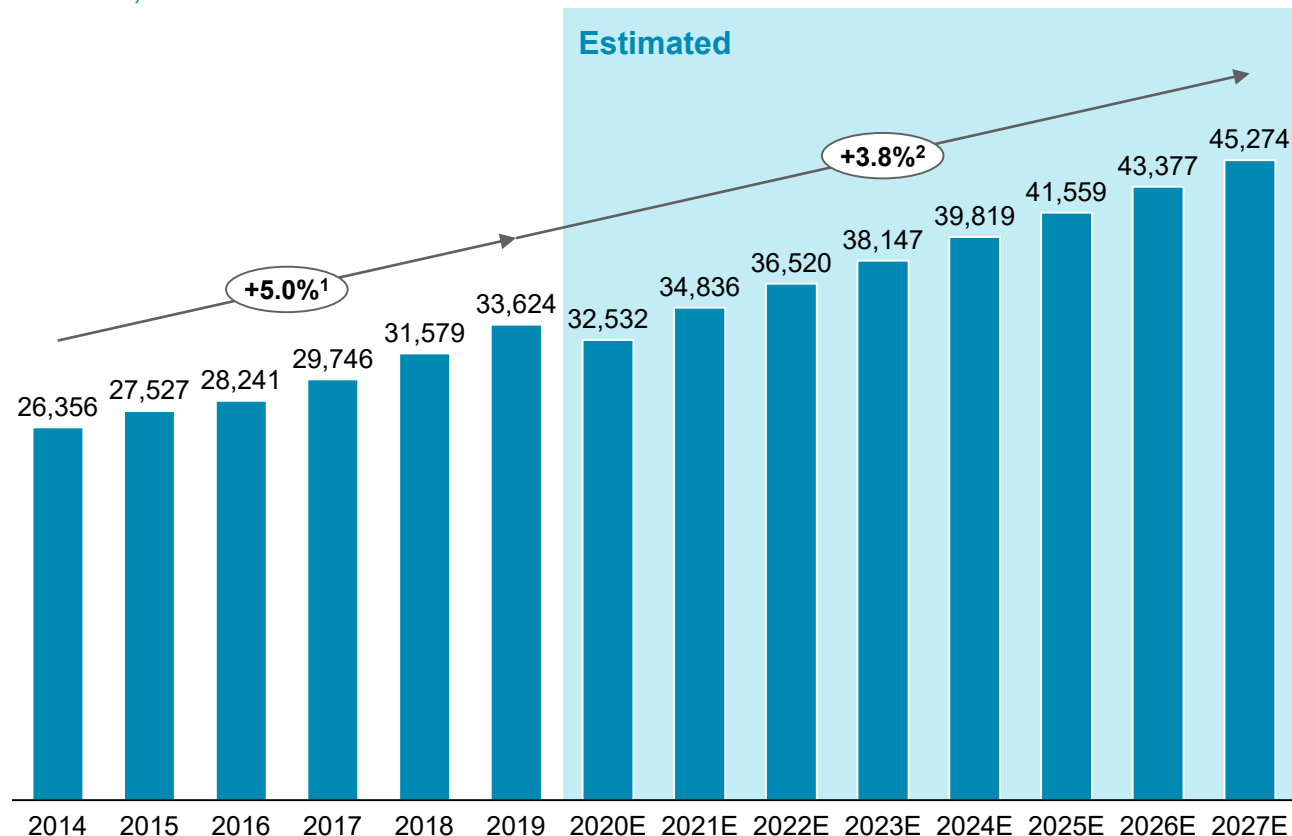
## The Russian retail market has been significantly impacted by COVID-19 crisis, but expected to recover and turn to growth in the upcoming years

- The Russian retail market has been **steadily growing for the past 5 years** with 5.0% CAGR and reached 518 BN USD<sup>1</sup> in 2019
- COVID-19 crisis caused a major decrease in sales of non-food assortment across all channels, which made the market **lag behind the pre-COVID forecasts**
- **Variety Value Retail** market is the **fastest growing channel** from a low base on the Russian retail accounting for 0.5% of total retail market in 2019 and **expected to more than double its size** by 2024
- E-commerce on of the fastest growing channels of Russian retail for the past 5 years. COVID-19 even **accelerated this growth**, which is expected to allow E-commerce to become one of the **leading channels** and **more than double its size by 2024**

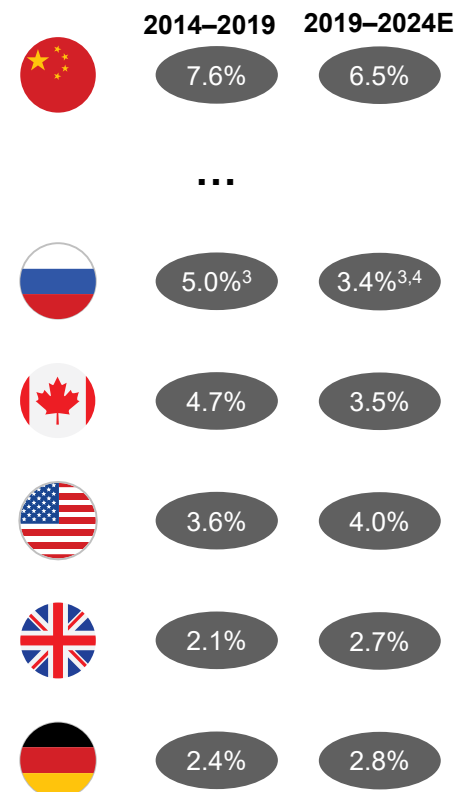
1. Exchange rate: 1 USD = 64.9 RUB in 2019 as defined by Euromonitor

# Russian retail market is expected to slow down after COVID-19 and resume growth at CAGR of 3.8% during 2019-2027

**Russian total retail market development**  
BN RUB, 2014–2027E



**CAGR for total retail market**  
US\$, 2014–2024E



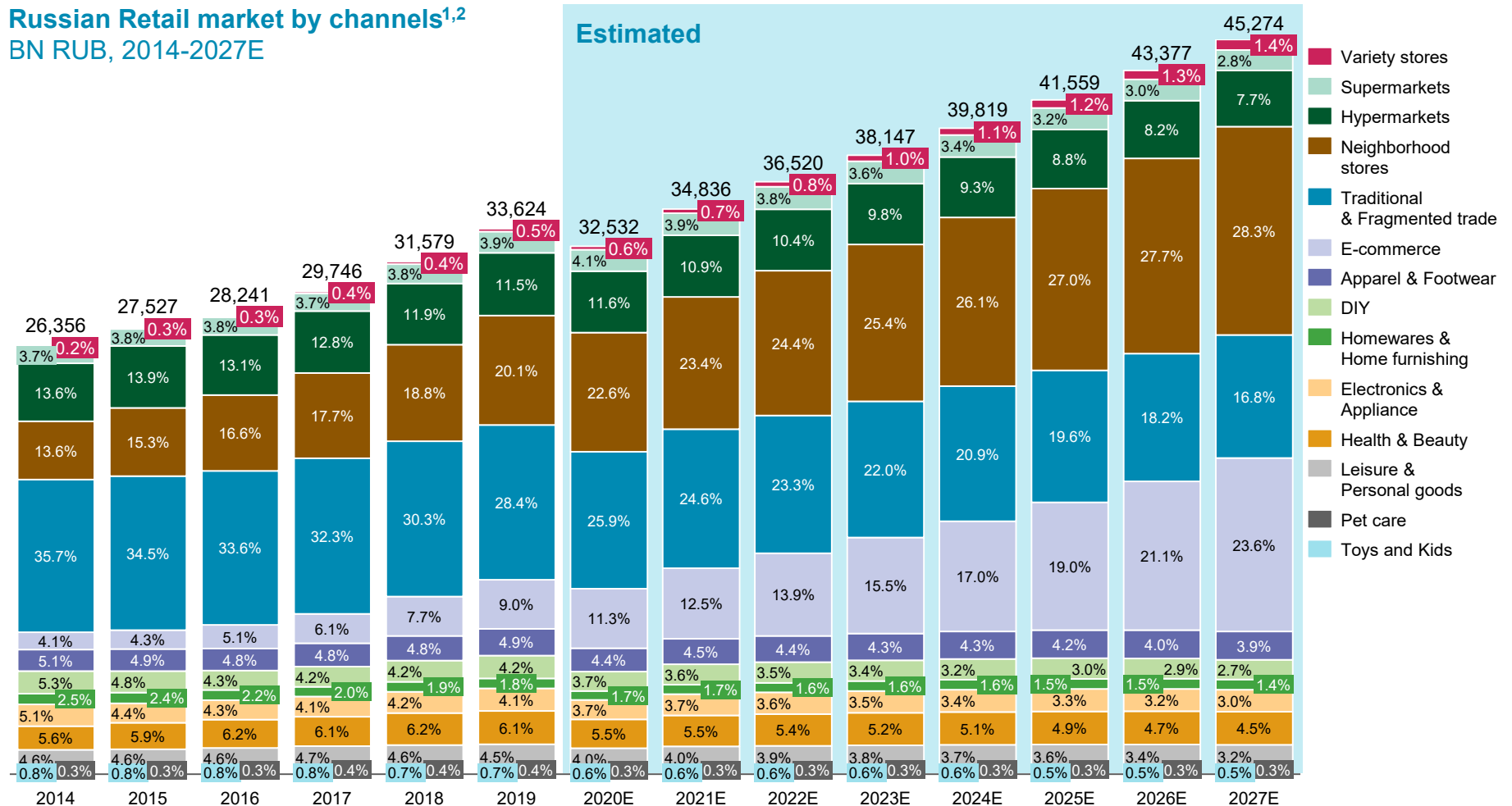
1. CAGR for 2014–2019 2. CAGR for 2019–2027E 3. For Russian market CAGR is calculated in local currency 4. CAGR 2019-2024E estimations for Russia vary in range from 1.8% (forecast of Russian Ministry of Economic Development) up to 5.2% (Euromonitor forecast). Presented forecast is a weighted estimation from the identified range

Note: List of countries is not exhaustive

Source: Federal State Statistics Service Rosstat, Russian Ministry of Economic Development, Euromonitor

# Channel split is expected to shift with growth of neighbourhood stores and E-commerce while declining share of traditional fragmented trade

Russian Retail market by channels<sup>1,2</sup>  
BN RUB, 2014-2027E

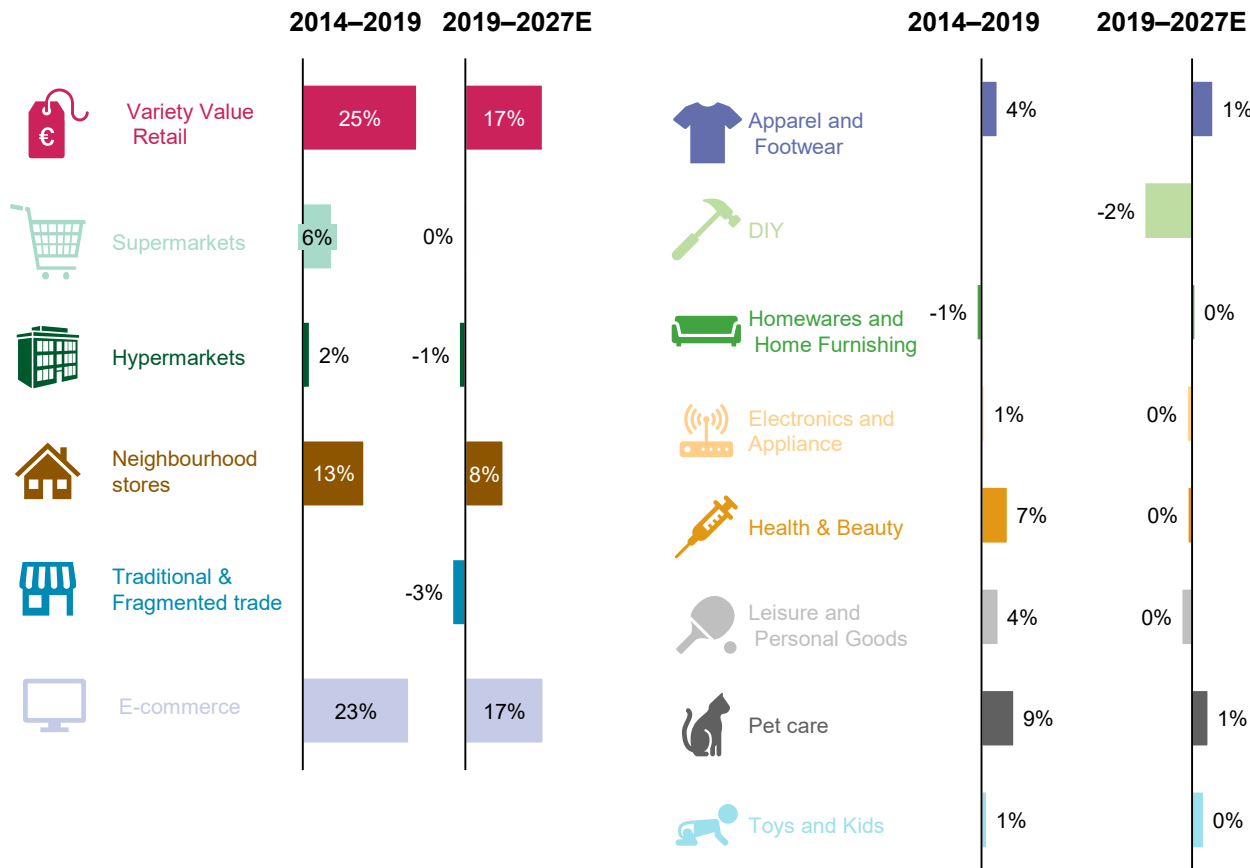


1. VAT is included 2. Status quo

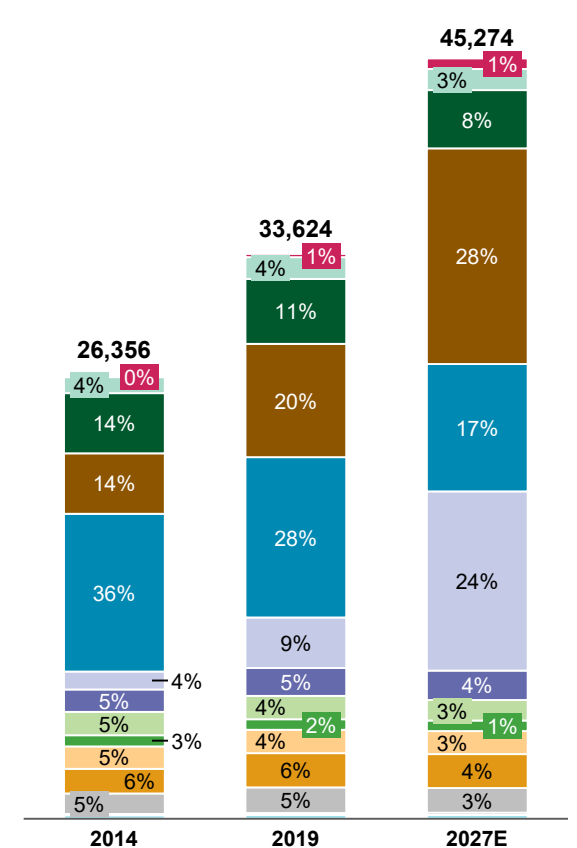
Source: Federal State Statistics Service Rosstat, Euromonitor, Russian Ministry of Economic Development, GFK

# Channel split is expected to shift with growth of neighbourhood stores and E-commerce

**CAGR by channel**  
RUB, 2014–2027E



**Russian Retail market by channels<sup>1</sup>**  
BN RUB, 2014-2027E



1. VAT is included  
Source: Federal State Statistics Service Rosstat, Euromonitor, Russian Ministry of Economic Development, GFK





# 1. Retail and Variety Value Retail market in Russia

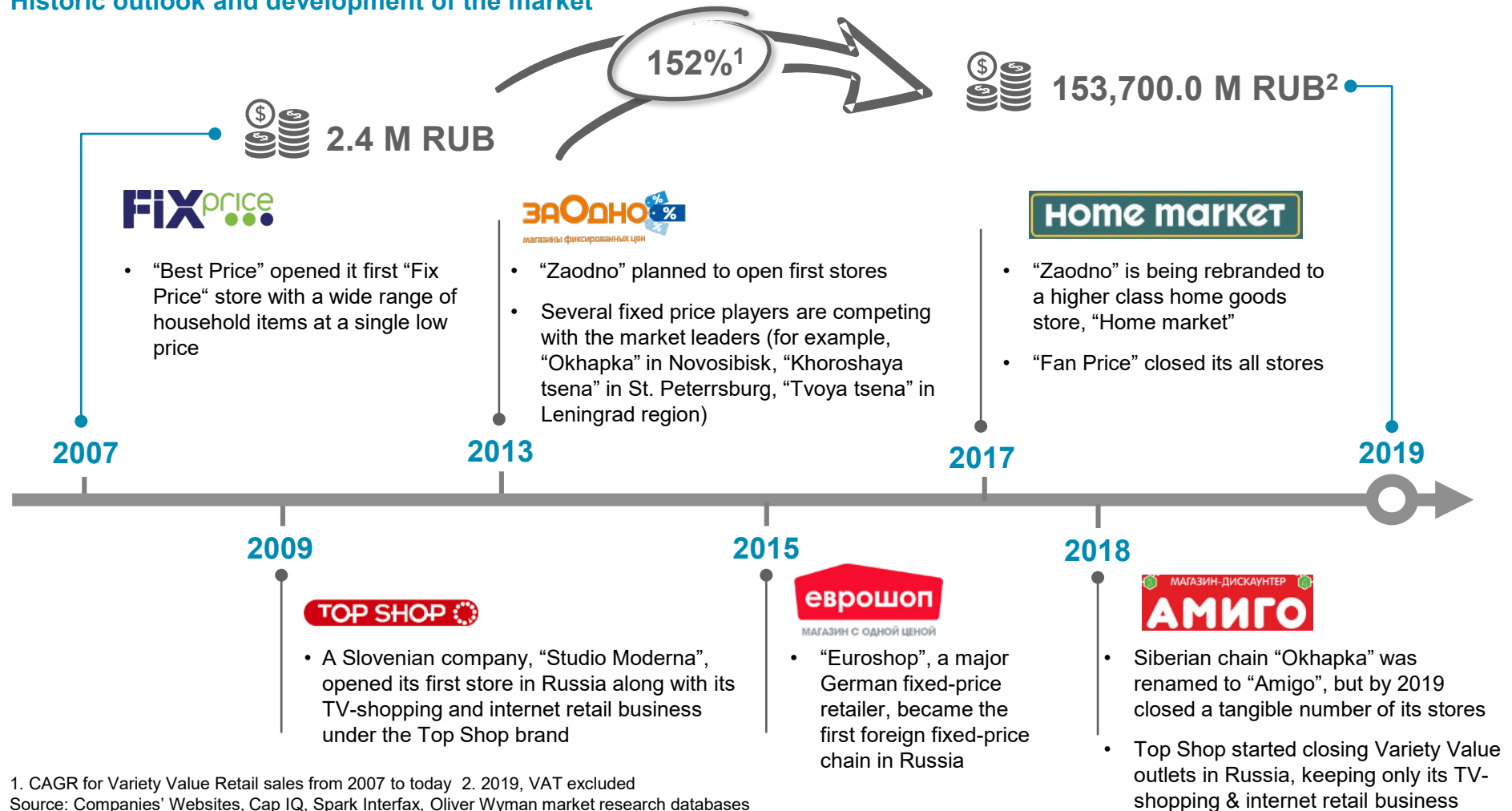
## 1.2 Overview of Russian Variety Value Retail market landscape and key players

## The Russian Variety Value Retail market has significantly grown over the years with Fix Price consolidating its leading market position

- Variety value stores market was established in Russia in 2007 with **Fix Price being the leading** player. **The market** has been **substantially growing** since then and more than doubled its size over the past 5 years, albeit still at a low base compared to other countries
- In 2019 we estimate that **Fix Price accounted for 93%** of the Variety Value Retail stores sales
- **Over the years the market has been constantly changing**: some Variety Value Retail players have been **entering the market**, some players went through **mergers and major rebranding**, and some players have **partially or fully closed stores** by the end of 2019
- Fix Price has 3,371 outlets opened across Russia in 2019
- Within the Variety Value Retail channel, **the closest competitor** to Fix Price is **Home Market**, which had **<5% market share** in 2019

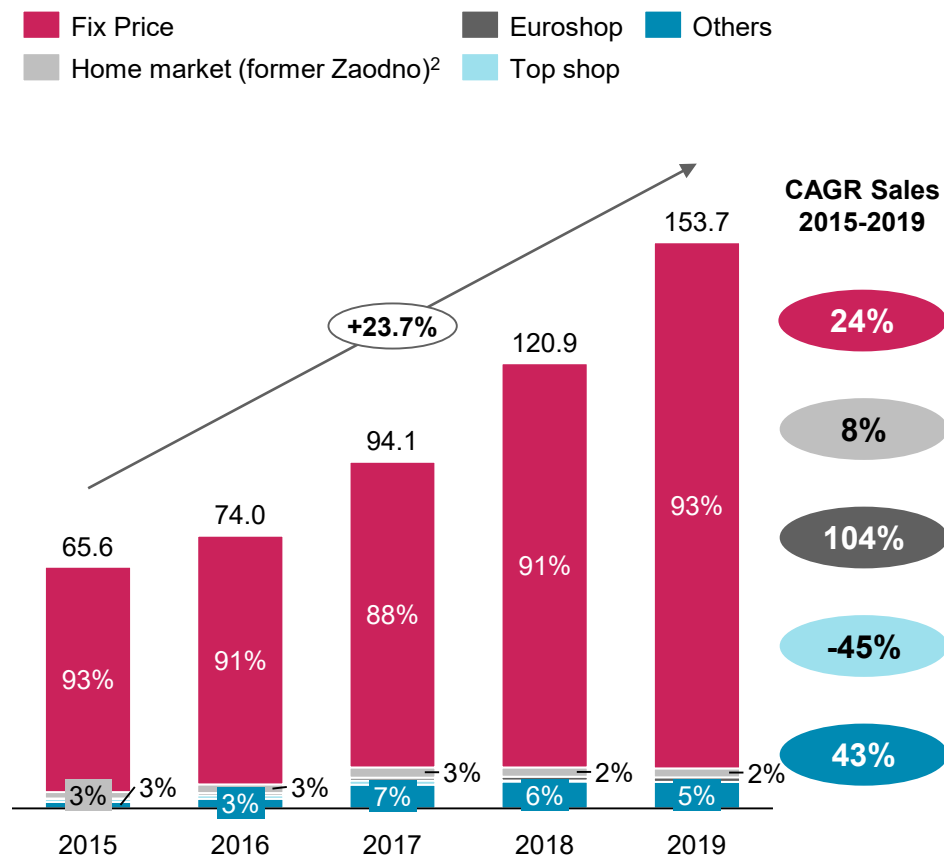
# Originated in 2007 with the launch of Fix Price, the Variety Value Retail market significantly grown for the past 12 years with new players entering

## Historic outlook and development of the market



# However, it remains highly concentrated with estimated 93% share captured by Fix Price in 2019

## Russian Variety Value Retail market by players BN RUB, 2019<sup>1</sup>



| Company            | Revenue, BN RUB 2019 | Number of stores |       | Stores' CAGR 2015-19 |
|--------------------|----------------------|------------------|-------|----------------------|
|                    |                      | 2015             | 2019  |                      |
| <b>FIXprice</b>    | 142.6                | 2,063            | 3,371 | +13.1%               |
| <b>home market</b> | 2.4                  | 74               | 114   | +11.4%               |
| <b>ЗАОДНО</b>      |                      |                  |       |                      |
| <b>еврошоп</b>     | 1.2                  | 20               | 25    | +5.7%                |
| <b>TOP SHOP</b>    | 0.1                  | 19               |       | Closing              |

1. VAT excluded 2.Home market and Zaodno data is merged, others include which are not covered by Euromonitor (e.g Amigo, Okhapka, Fragmented players)

Source: Euromonitor, Companies' websites, Spark Interfax

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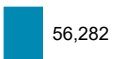
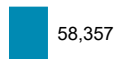








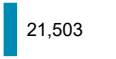
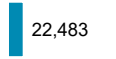


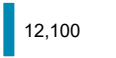
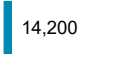
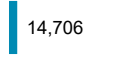


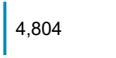
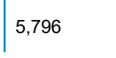
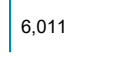


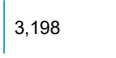
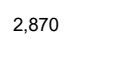
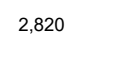


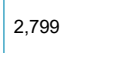
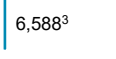
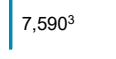

# 1. Retail and Variety Value Retail market in Russia

1.3 Comparison of Russian Variety Value Retail market with international benchmarks

## Russian Variety Value Retail market is underpenetrated comparing to mature benchmarks and might have significant potential for further development

- The Russian Variety Value Retail market is one of the fastest growing retail channels in Russia and is still **at the development stage** comparing to mature international benchmarks
- **Russian Variety Value Retail** market is still **lagging behind developed countries** in volume and potential consumption per capita, suggesting further **potential** for growth
- We estimate that the **market stays underpenetrated** in terms of both number of stores and selling space per capita, flagging potential **opportunity for expansion** for Variety Value Retail players
- Countries with **mature** Variety Value Retail **markets demonstrate higher level of competition** with leading players generally occupying significantly lower share of the market than Fix Price has in Russia

# Russian Variety Value Retail market still has an opportunity to grow as lagging behind developed countries in terms of the volume and potential consumption per capita...

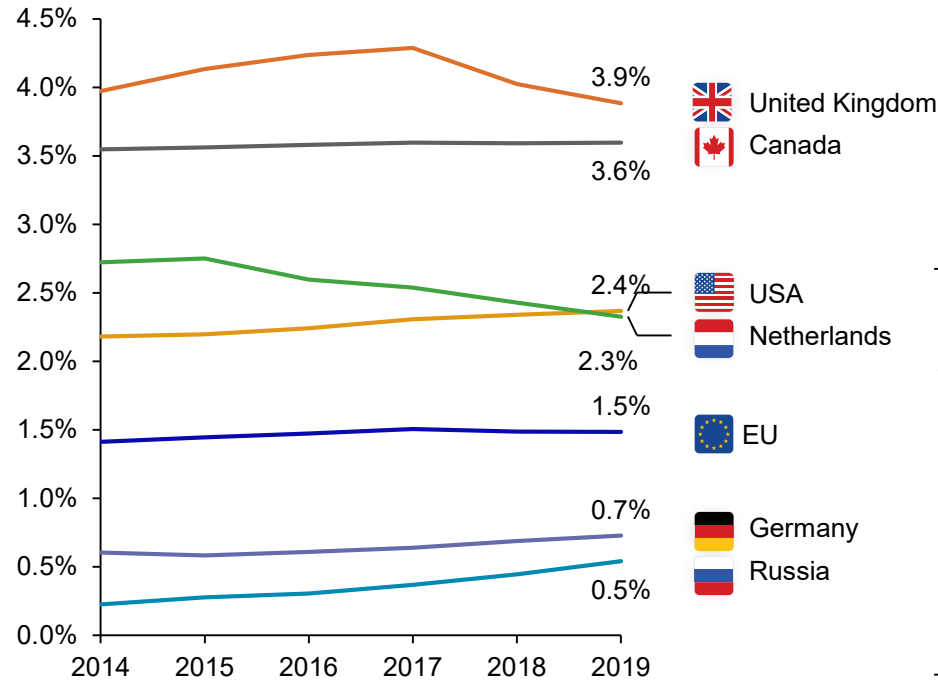
| Country <sup>1</sup>   | 2009-2014                     |   | 2014-2019        |                     | 2019-2024E   |                     |                     | 2020E-2025E  |                     |                     | Consumption  |
|--|-------------------------------|---|------------------|---------------------|--|---------------------|---------------------|--|---------------------|---------------------|--|
|  | VVR <sup>5</sup> CAGR 09'-14' | VVR market size <sup>2</sup> , 2019 M USD   | VVR CAGR 14'-19' | Retail CAGR 14'-19' | VVR market size <sup>2</sup> , 2024 M USD  | VVR CAGR 19'-24'    | Retail CAGR 19'-24' | VVR market size <sup>2</sup> , 2025 M USD  | VVR CAGR 20'-25'    | Retail CAGR 20'-25' | Consumption per capita, 2019 USD   |
|               | 5.26%                         |  218,172 | 5.45%            | 4.85%               |  267,251              | 4.14%               | 5.25%               |  281,190              | 5.95%               | 6.75%               |  6,365    |
|  <sup>4</sup> | 2.90%                         |  52,181  | 3.39%            | 2.36%               |  56,282               | 1.52%               | 2.85%               |  58,357               | 5.52%               | 3.97%               |  19,463   |
|               | 6.60%                         |  79,591  | 5.29%            | 3.57%               |  104,100              | 5.52%               | 3.95%               |  109,837              | 5.58%               | 5.81%               |  43,028   |
|               | 4.88%                         |  21,229  | 1.63%            | 2.08%               |  21,503               | 0.26%               | 2.70%               |  22,483               | 6.69%               | 4.33%               |  26,258   |
|               | 1.43%                         |  12,100  | 4.97%            | 4.68%               |  14,200               | 3.25%               | 3.50%               |  14,706               | 4.34%               | 4.58%               |  25,782   |
|              | 0.01%                         |  4,804  | 6.30%            | 2.37%               |  5,796               | 3.83%               | 2.81%               |  6,011               | 8.21%               | 3.60%               |  23,002  |
|             | 1.19%                         |  3,198 | -0.64%           | 2.56%               |  2,870              | -2.15%              | 2.38%               |  2,820              | 0.33%               | 3.29%               |  22,633 |
|             | 91.52%                        |  2,799 | 24.91%           | 4.99%               |  6,588 <sup>3</sup> | 18.67% <sup>3</sup> | 3.44%               |  7,590 <sup>3</sup> | 19.11% <sup>3</sup> | 5.02%               |  5,736  |

1. Russia is calculated based on addressable market model, developed by Oliver Wyman team specifically for this project 2. Variety Value Retail market definition is aligned with Euromonitor's definition of "Variety stores" 3. Status quo 4. European Union including the UK 5. Variety Value Retail; Note: Market size and CAGRs are calculated using 2019 fixed exchange rate Source: for international benchmarks - Euromonitor, for Russia – Federal State Statistics Service Rosstat, Ministry of Economic Development, GFK, Oliver Wyman analysis

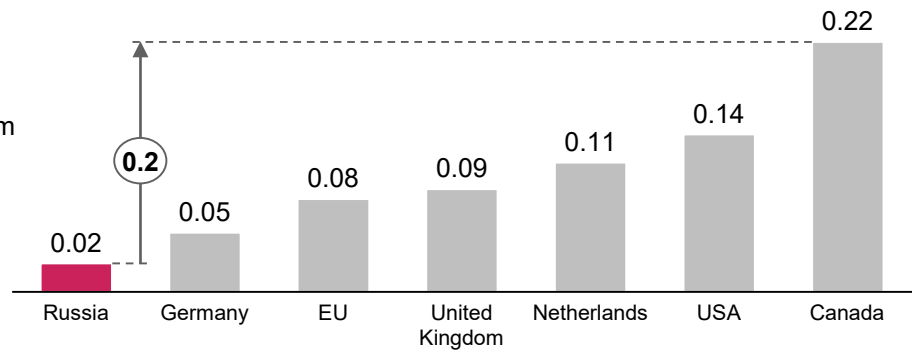
...it also remains underpenetrated compared to developed markets in terms of total retail market, and number of stores and selling space per capita

**Russia remains much lower than developed markets in terms of share of Variety Value Retail market and penetration**

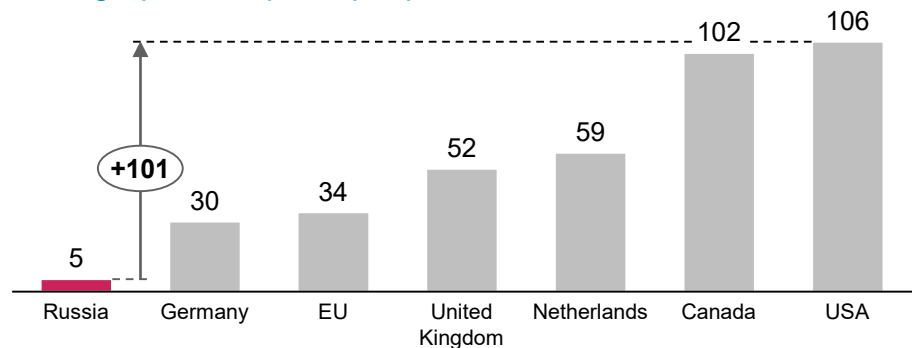
Share of Variety Value Retail<sup>1</sup> in total retail market, %  
2014-2019



Stores per K people, 2019



Selling Space M<sup>2</sup> per K people, 2019









1. Variety Value Retail market definition is aligned with Euromonitor's definition of "Variety stores"; Source: Euromonitor, Rosstat, Countries' statistic services



# Benchmarking with selected developed markets

● - Market maturity

## Comparison of Variety Value Retail markets<sup>1</sup>

|  |  |  |  |  |  |  |
|--|---|---|--|---|---|---|
| Market size, M USD, 2019   | 79,591  | 21,229  | 12,100   | 4,804   | 3,198   | 2,799   |
| Share of total retail market, %                                      | 2.4%  | 3.9%  | 3.6%   | 0.7%  | 2.3%  | 0.5%  |
| Total # of VVR stores according to Euromonitor <sup>2</sup>          | 44,986  | 5,965   | 8,175  | 3,694   | 1,946   | 3,651   |
| # of VVR stores similar to Russian VVR concept <sup>3</sup>          | 31,730  | 2,789   | 1,461  | 3,418   | 422   | 3,651   |
| Market share of leading player in total retail market, %             | 0.8%  | 0.8%  | 0.8%   | 0.2%  | 1.3%  | 0.5%  |
| Market share of the leading player in Variety Value Retail market, % | 35%   | 21%   | 23%  | 26%   | 57%   | 93%   |
| CAGR (14-19)   | 5.3%  | 1.6%  | 5.0%   | 6.3%  | -0.6%   | 24.9%   |
| Variety Value Retail market description                              | Largest and the most mature market  | Mature market with different to Russia models                                     | Mature market with similar to Russia players                                       | Small share of Variety Value Retail   | Less mature market with example of growing player                                   |   |

1. Benchmarks are selected based on a combination of share of VVR market in retail and VVR penetration in terms of # of stores. Both criteria are high in USA, UK & Canada. The other two are attractive for analysis due to high level in one criteria. 2. # of VVR stores according to Euromonitor methodology 3. Exclusively Variety Value Retail stores with similar assortment and pricing strategy to the Russian examples of VVR; Source: Euromonitor, Oliver Wyman market research databases, additionally for Russia – Rosstat, GFK

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## 2. Broader addressable market

### 2.1 Assessment of broader addressable market for Variety Value Retail

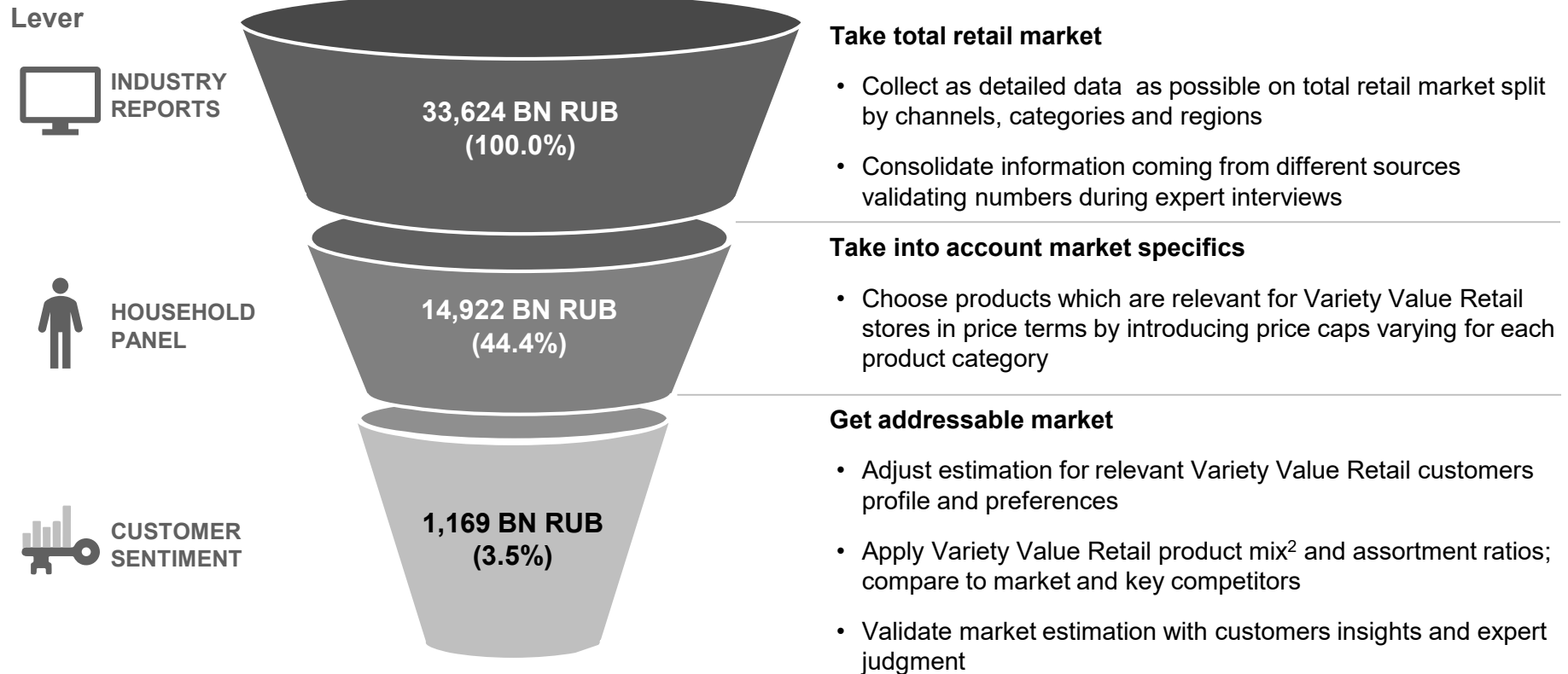


The Variety Value Retail addressable market size is estimated to be 1,169 BN RUB in 2019, with Variety Value Retail channel thereof 16%

- **Addressable market** is a part of retail products which are similar to **Variety Value Retail** products **in terms of price and assortment offer**, while can be sold through different retail channels
- The size of addressable market is estimated to be 1,169 BN RUB in 2019, which accounts for **3.5% of the total Russian retail market** and is served by several channels
- **Channel split** of the addressable market **has been changing** over the past 5 years, with **neighbourhood and Variety Value Retail stores strengthening their position** and declining share of traditional trade
- **Variety Value Retail share of the addressable market is growing** with accelerating pace, reaching **16% in 2019**

# Addressable market estimation is carried out in three stages

## Addressable market estimation, 2019<sup>1</sup>













1. VAT is included 2. Current assortment includes SKUs limited by average store space and divided in specific way by categories (ex. food to non-food ratio)

Source: Federal State Statistics Service Rosstat, Euromonitor, GFK, Oliver Wyman analysis

# Applied price cap varies across categories with an average weighted cap of 364 RUB

## Category price caps according to price indices

| Category  | Market share of addressable market | Maximum caps, RUB <sup>1</sup> |
|---|------------------------------------|--------------------------------|
|  Food and Drinks               | 43.7%                              | 220                            |
|  Home care                     | 11.4%                              | 300                            |
|  Apparel and Footwear          | 8.6%                               | 850                            |
|  DIY                           | 6.4%                               | 500                            |
|  Homewares and Home Furnishing | 5.3%                               | 500                            |
|  Electronics and Appliance     | 4.6%                               | 400                            |
|  Health and Beauty            | 9.1%                               | 300                            |
|  Leisure and Personal Goods  | 7.7%                               | 500                            |
|  Pet care                    | 1.3%                               | 250                            |
|  Toys and Kids               | 1.9%                               | 800                            |

Weighted sales price cap, RUB<sup>1</sup>

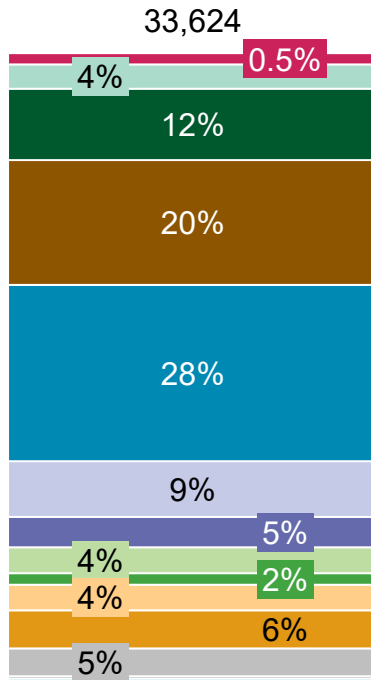
364

1. VAT is included

Source: GfK, Price monitoring September 2020, Oliver Wyman analysis

# Products below price caps contribute 44.4% of total retail market or 14,922 BN RUB

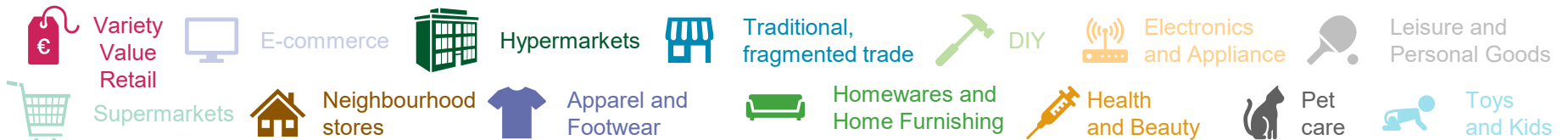
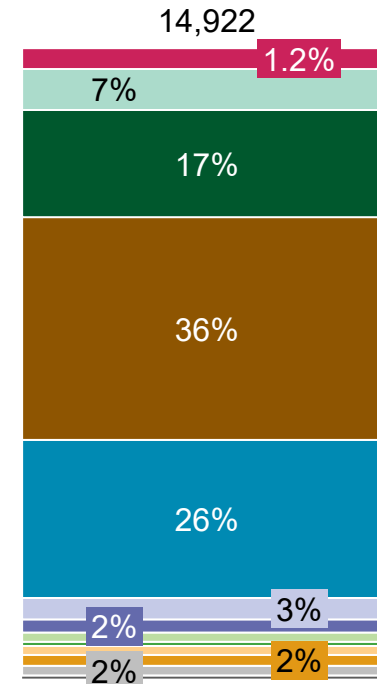
**Russian retail market structure**  
BN RUB, 2019<sup>1</sup>



44.4% of sales are products that costs less than product categories price cuts



**Russian retail market structure below price caps**  
BN RUB, 2019<sup>1</sup>



1. VAT is included  
Source: Federal State Statistics Service Rosstat, Euromonitor, GfK, Oliver Wyman analysis

# Next the products are filtered for categories and assortment that reflect today Variety Value Retail market range in Russia








## Filters, 2019

### CUSTOMER SENTIMENT



#### Category filter

Some non-relevant grocery categories have been completely excluded from assessment:

-  Strong alcoholic drinks
-  Meat<sup>1</sup>
-  Perishable dairy products<sup>1</sup>
-  Fresh fruits & vegetables
-  Fresh or frozen fish
-  Bread
-  Eggs

- 4,358 bn RUB



#### Assortment filter

- Before introducing assortment filter, all unique products are divided on 3 groups:
  - Sold in Variety Value Retail stores, available on the market
  - Sold in Variety Value Retail stores, not available on the market
  - Not sold in Variety Value Retail stores, available on the market
- Given format and assortment size of Variety Value Retail stores in Russia leads to differences with indirect competitors. Therefore, special ratio of the number of unique SKUs below price caps in Fix Price to the same number on total retail market is introduced

- 9,394 bn RUB

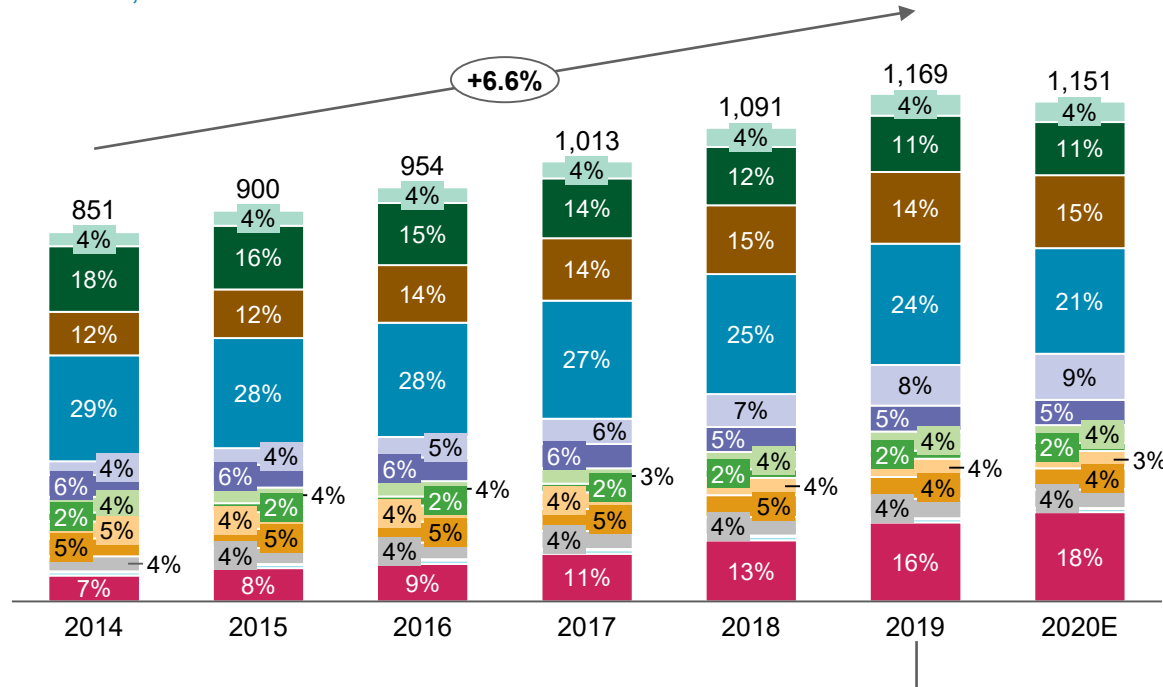
1. Category filter does not exclude butter, sliced cheese and sausages, dairy with long shelf life and other categories present in Variety Value Retail stores assortment

Source: Federal State Statistics Service, Euromonitor, GfK, Oliver Wyman analysis

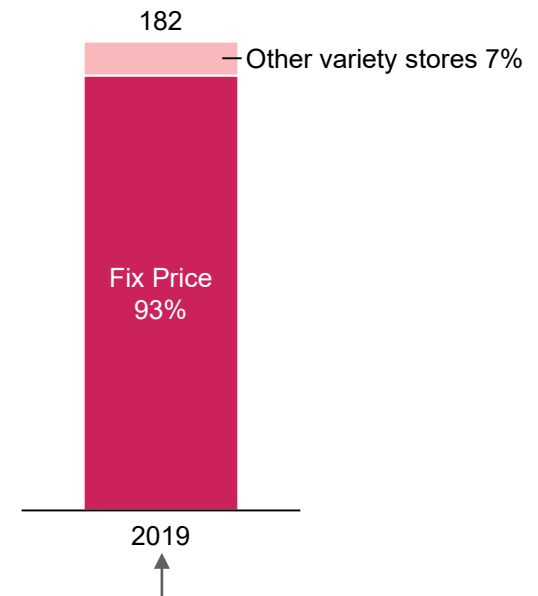


# Channel split: The Variety Value Retail addressable market size is 1,169 BN RUB with Variety Value Retail stores channel thereof 16%

Russian Variety Value Retail addressable market by channels  
BN RUB, 2014-2020E<sup>1</sup>



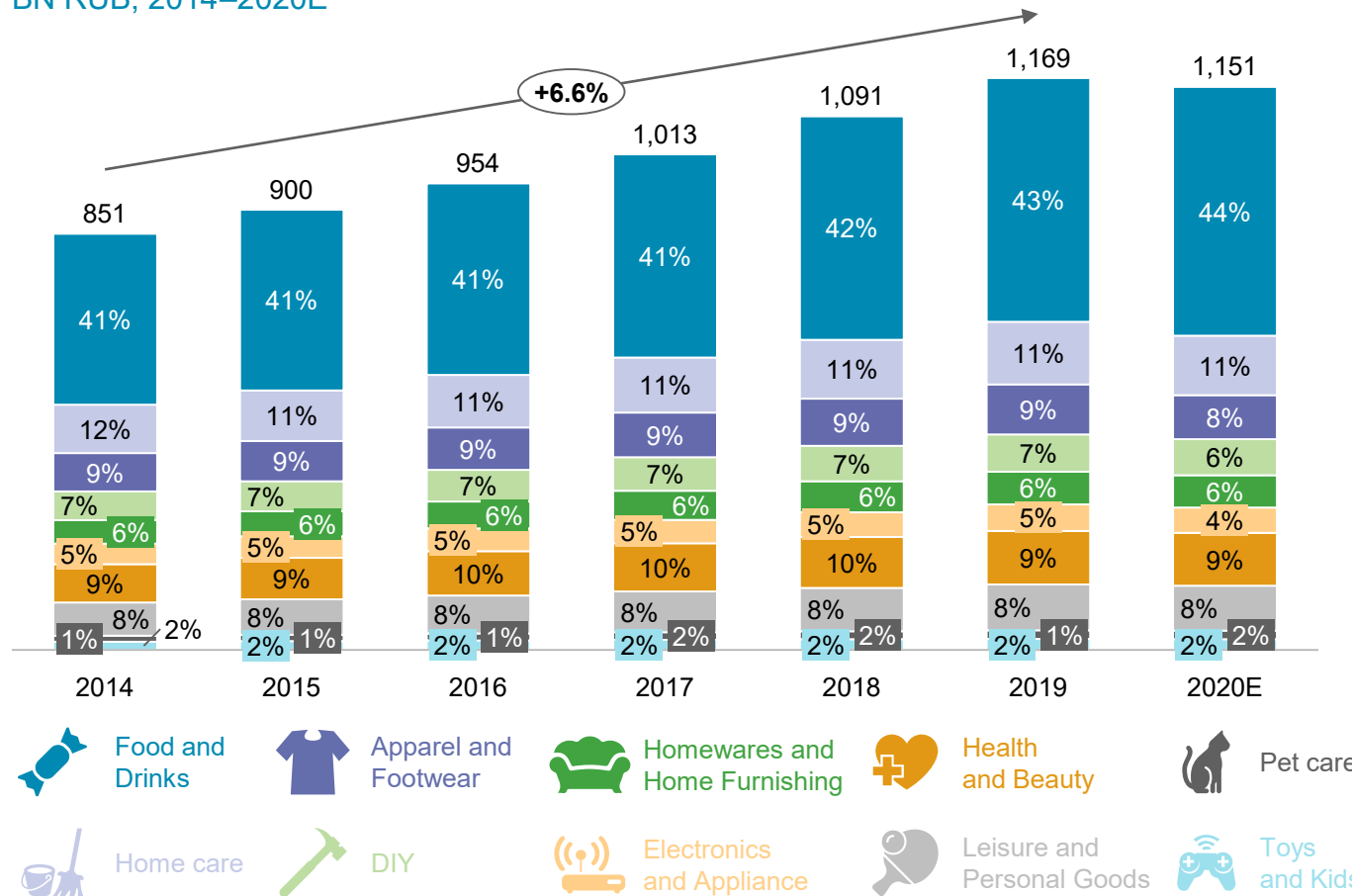
Fix Price as % of Variety Value Retail market<sup>1</sup>  
BN RUB, 2019



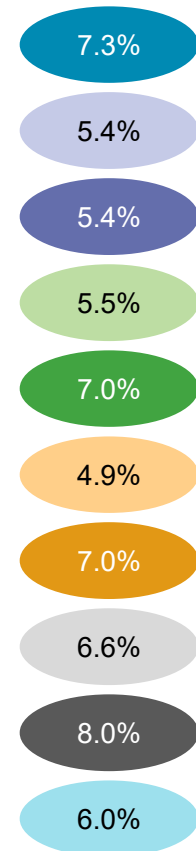
1. VAT is included; Note: See more details in Appendix  
Source: Federal State Statistics Service Rosstat, Euromonitor, GfK, Oliver Wyman analysis

# Category split: Food and Drinks is the largest product segment on addressable market accounting for ~43% in 2019

Russian Variety Value Retail addressable market by categories  
BN RUB, 2014–2020E<sup>1</sup>

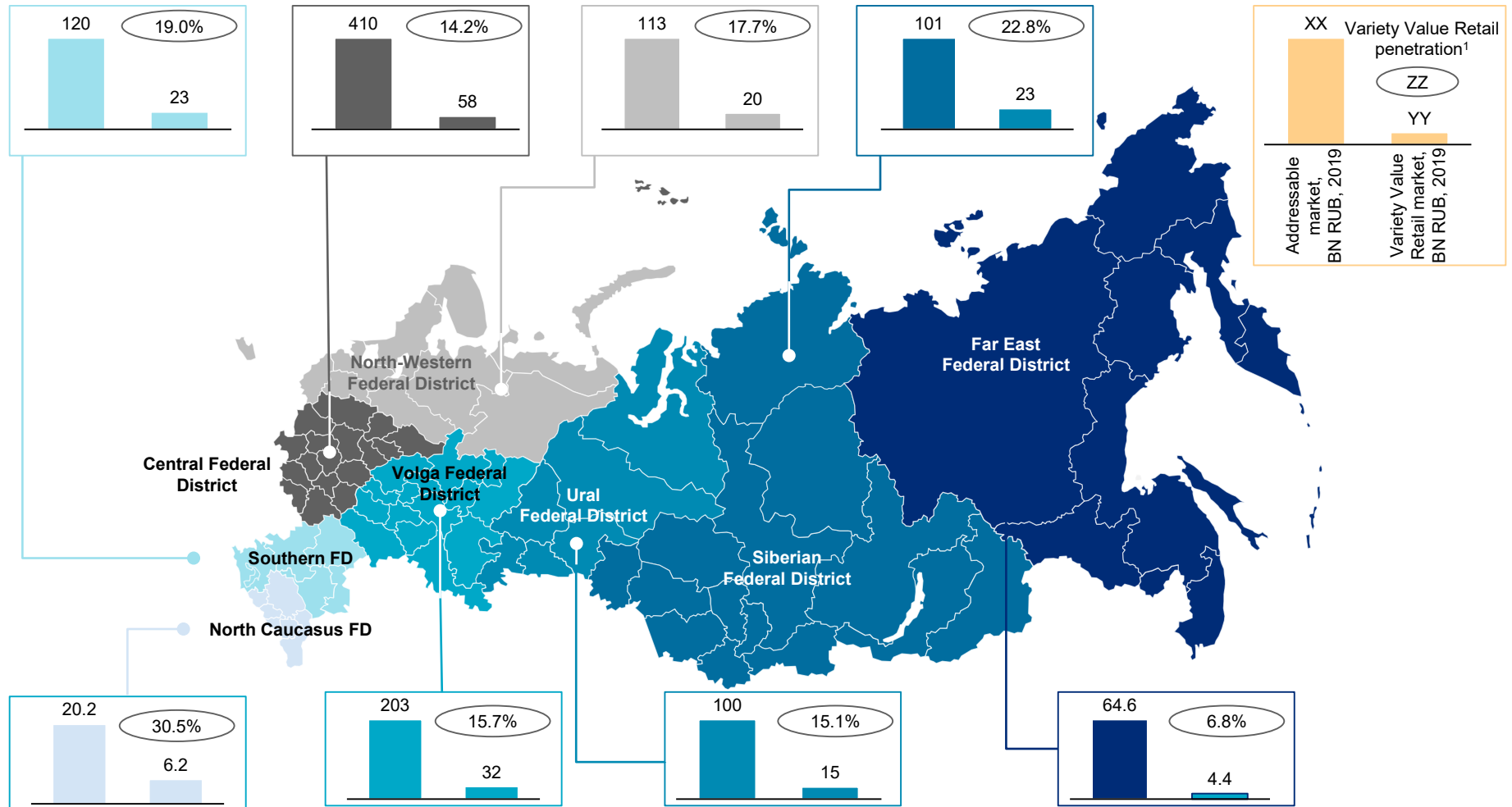


CAGR for categories  
RUB, 2014–2019<sup>1</sup>

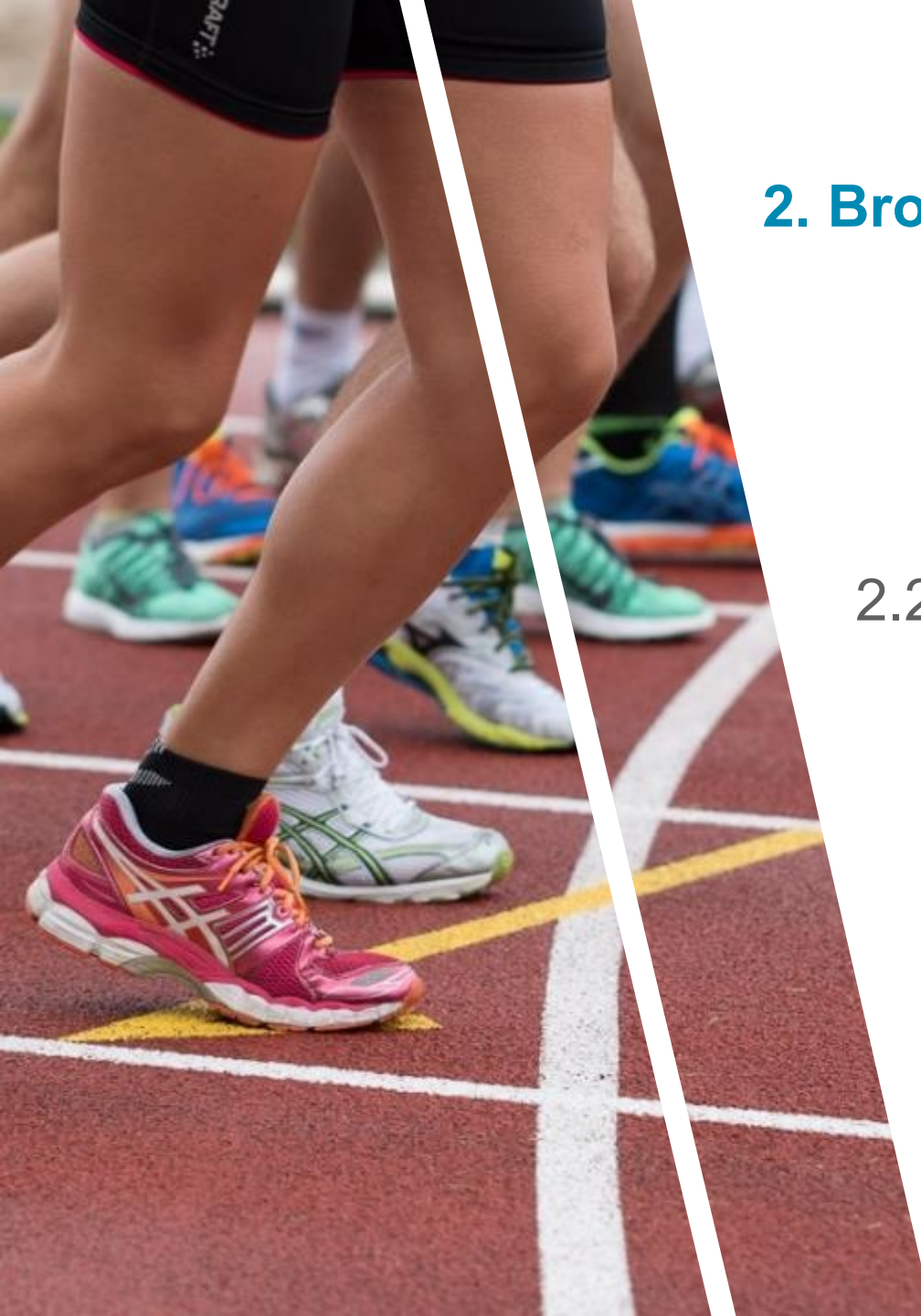


1. VAT is included; Note: See more details in Appendix  
Source: Federal State Statistics Service Rosstat, Euromonitor, GfK, Oliver Wyman analysis

# The size of addressable market is largest in the Central Russia, Variety Value Retail penetration is evenly distributed across all regions except for Far East



1. Variety Value Retail penetration is calculated as the ratio of Variety Value Retail market to addressable market size  
 Source: Federal State Statistics Service Rosstat, Euromonitor, GfK, Oliver Wyman analysis



## 2. Broader addressable market

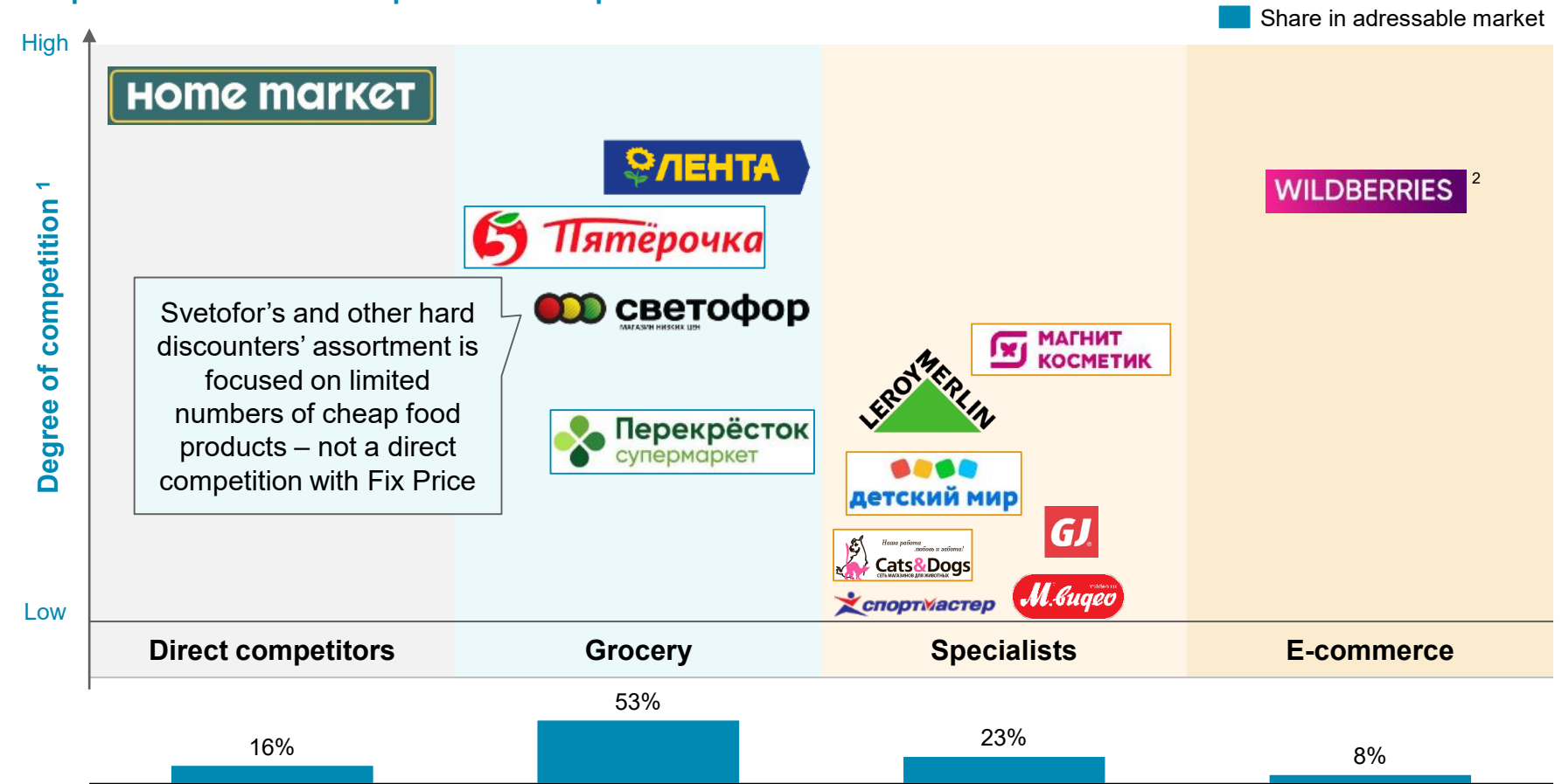
2.2 Description of direct and indirect competitors

## Fix Price has many indirect competitors on the Russian market, that have strong positioning and require additional strategic attention

- The current **addressable market** is mostly **occupied by traditional trade and neighbourhood stores with discounters** having 24% and 14% share respectively, while specialized **Variety Value Retail stores have a 16% share as of 2019**
- The **share of traditional trade** in the addressable market is **rapidly declining over the years**, mainly being crowded out by active growth of neighbourhood stores and Variety Value Retail
- **Neighbourhood stores and discounters** have the second highest share of the addressable market and show the most rapid expansion and sales growth over the recent years
- **E-commerce** channel also has **high assortment relevance** to Variety Value Retail in different product segments and is **expected to continue growing** with a strong pace accelerated by COVID-19

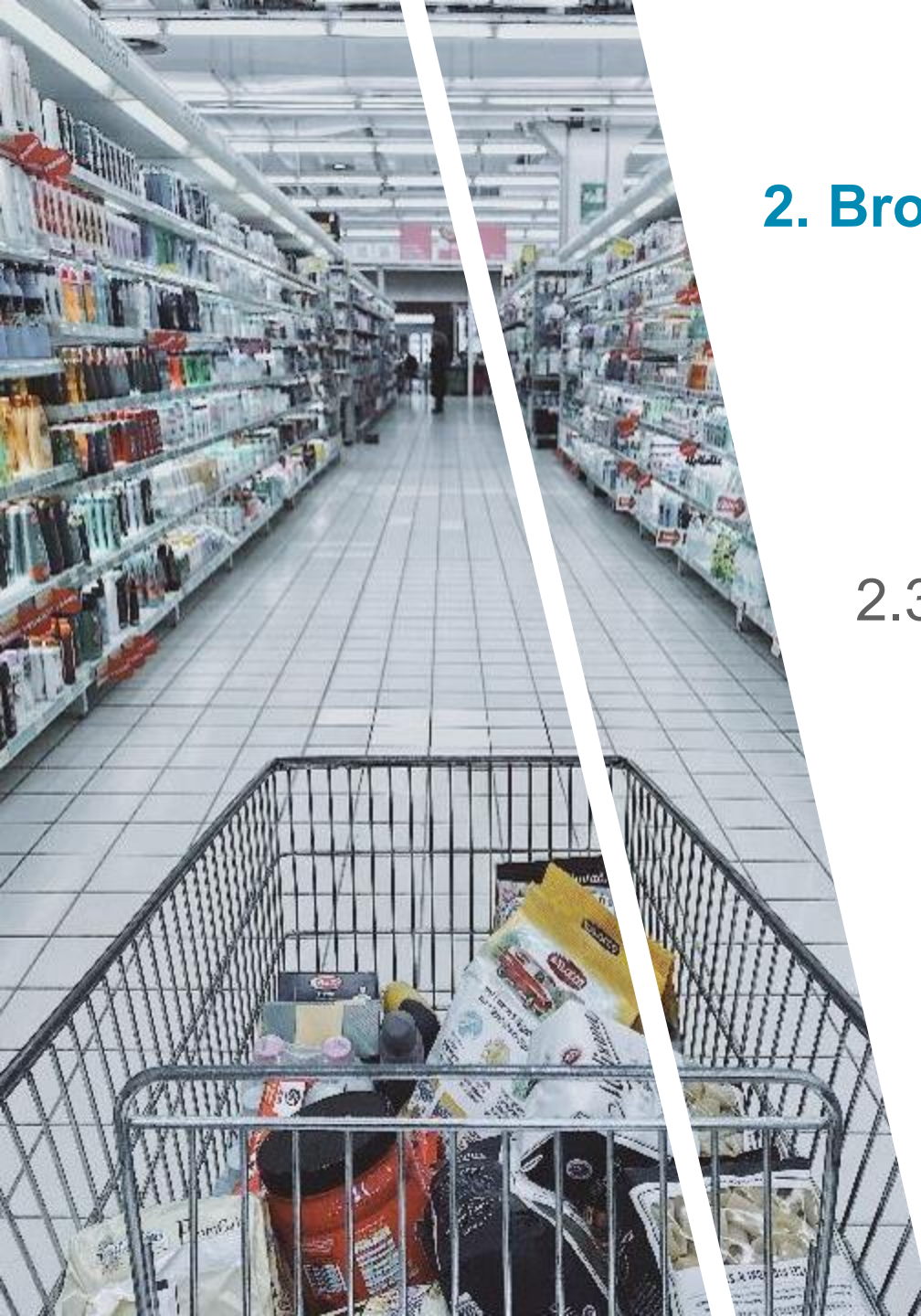
# The competitors have different degree of competition with Fix Price with players from grocery and e-commerce channels being the most competitive

Competitiveness matrix of top selected competitors across all channels



Channel share in addressable market, 2019

1. Integral index assessing competitiveness between companies, based on combination of factors such as assortment relevance, offer, value proposition etc. 2. Covered in e-commerce section  
Source: Oliver Wyman research databases, Euromonitor, Oliver Wyman analysis



## 2. Broader addressable market

2.3 Overview of customer preferences & potential for e-commerce

## Variety Value Retail and neighbourhood stores compete for overlapping share of customer wallet

- **Price** and product **quality** remain the most important needs for customers
- **All** customer segments purchase at Variety Value Retail stores (including **affluent**)
- Most clients come to Fix Price in search of **better price** or to find **specific products**
- Fix Price is perceived as being **convenient** and having **strong price offer**, but weaker on assortment and quality side
- Fix Price customers perceive **neighbourhood** stores and **hypermarkets** as Fix Price **alternatives** but would also be willing to purchase **additional categories** at Fix Price
- Fix Price customers often **purchase online** and are as advanced as customers of other retailers
- E-commerce adoption is much **higher in big cities**, where customers are more **digitally advanced**, and **logistics** are cheaper
- There are still **barriers** for e-commerce adoption, **limiting potential** for growth in Variety Value Retail: inability to assess product quality before purchase, duration and cost of delivery in comparison to average ticket
- Leading e-commerce players have **massive** offer, but with bias towards “**mainstream**” **product segment**, not focusing on Variety Value Retail assortment



# Customers choose store led price attractiveness and ready to spend more time on it

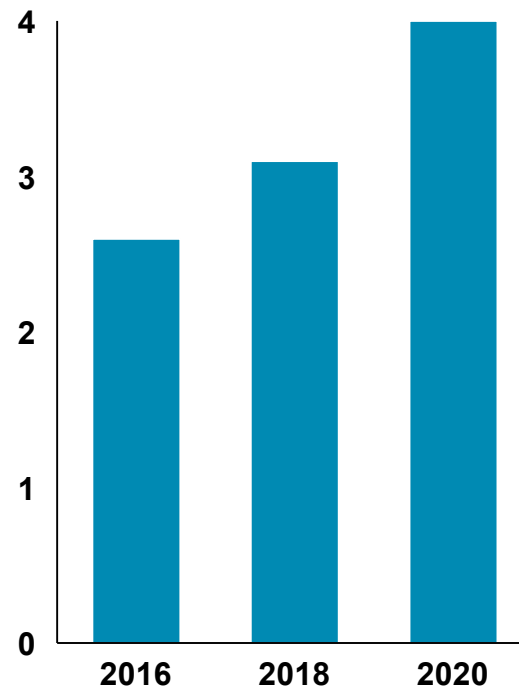
**Prices have become the main criterion for choosing a store, the quality has fallen in importance**

Store choice criteria



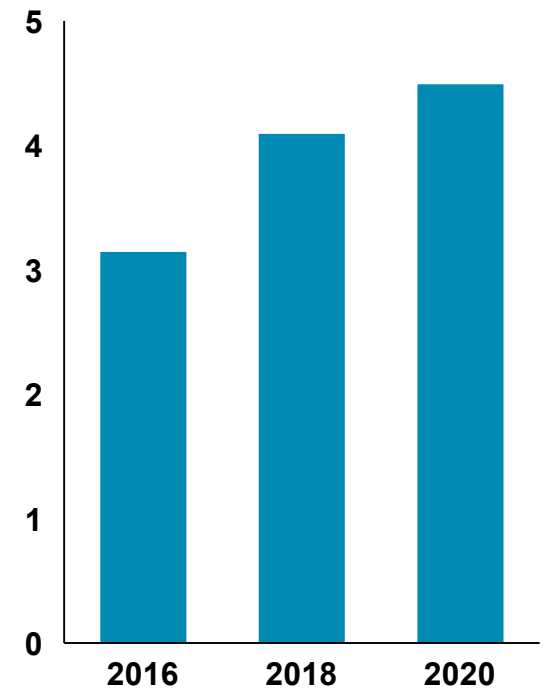
**In search of better prices, customers began to visit more retail chains...**

Number of retailers regularly visited (>2 times per month), after COVID-19 lockdown



**Customers began to go more often in shops**

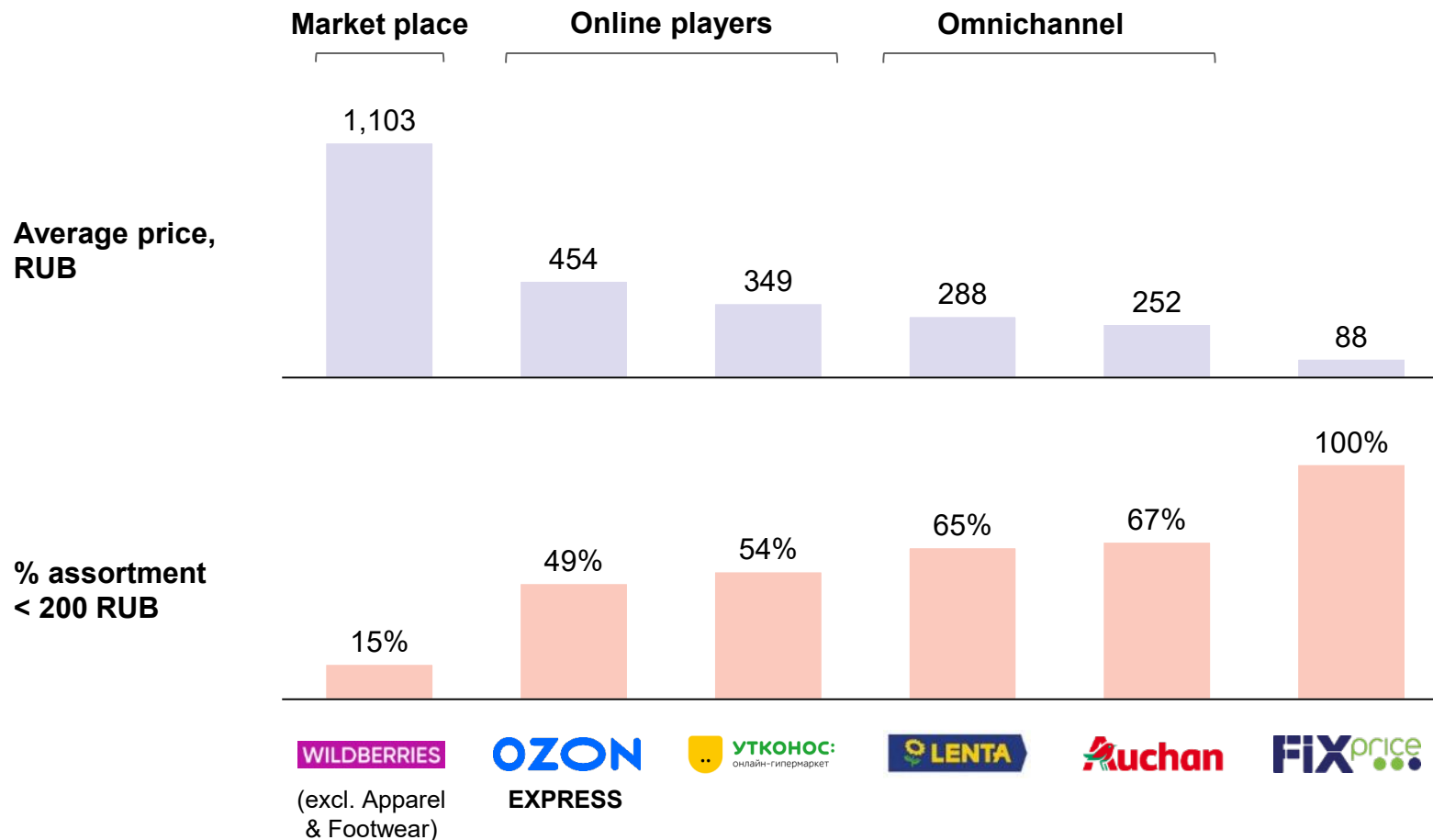
Number of store visits per week, after COVID-19 lockdown



Source: Customer Survey: September 2020 (2000 respondents), GfK

# Omnichannel players' offer is skewed towards low price end, but on average still significantly more expensive than Variety Value Retail stores' assortment

## Average price of online active assortment, October 2020



Source: Product catalogues as presented on companies' websites

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- 5.1 Addressable market development details
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## 3. Variety Value Retail market development











### 3.1 Estimation of market growth and potential

According to a bottom-up estimation, The Variety Value Retail market is underpenetrated, providing opportunity for expansion of this format

- Potential number of white spaces for Variety Value Retail stores is estimated **leveraging experience of international benchmarks** and applying methodology based on **customer catchment areas with adjustments for high traffic places** and **economic viability**
- The described approach results in estimation of **Variety Value Retail market up to 11,700 stores** across Russia - 3 times higher than the current number of opened stores
- Current market saturation level is **different across regions**, with Central and Volga districts being the most penetrated, while Far-East significantly lagging behind
- **Moscow and Saint-Petersburg** are the cities with **highest absolute potential**, together accounting for more than 1,500 additional white spaces currently not occupied by Variety Value stores












# The bottom up approach leads to potential 11,698 stores across Russia with 12,545 people per store

## Current situation: actual # of stores and population per store in 2019

|  |  Moscow |  Saint Petersburg |  Other >1M cities |  Cities with 0.5-1M |  Cities with 0.25-0.5M |  Cities with 0.05-0.25M |  Cities with <0.05M <sup>1</sup> |  Total Russia |
|--|--|--|---|--|---|--|---|--|
|  # of Variety Value Retail stores | 284  | 97   | 525   | 530  | 535   | 973  | 707   | <b>3,651</b>   |
|  # of people per store            | 44,641   | 55,650   | 29,765  | 26,705   | 37,682  | 26,460   | 43,707  | <b>40,194</b>  |



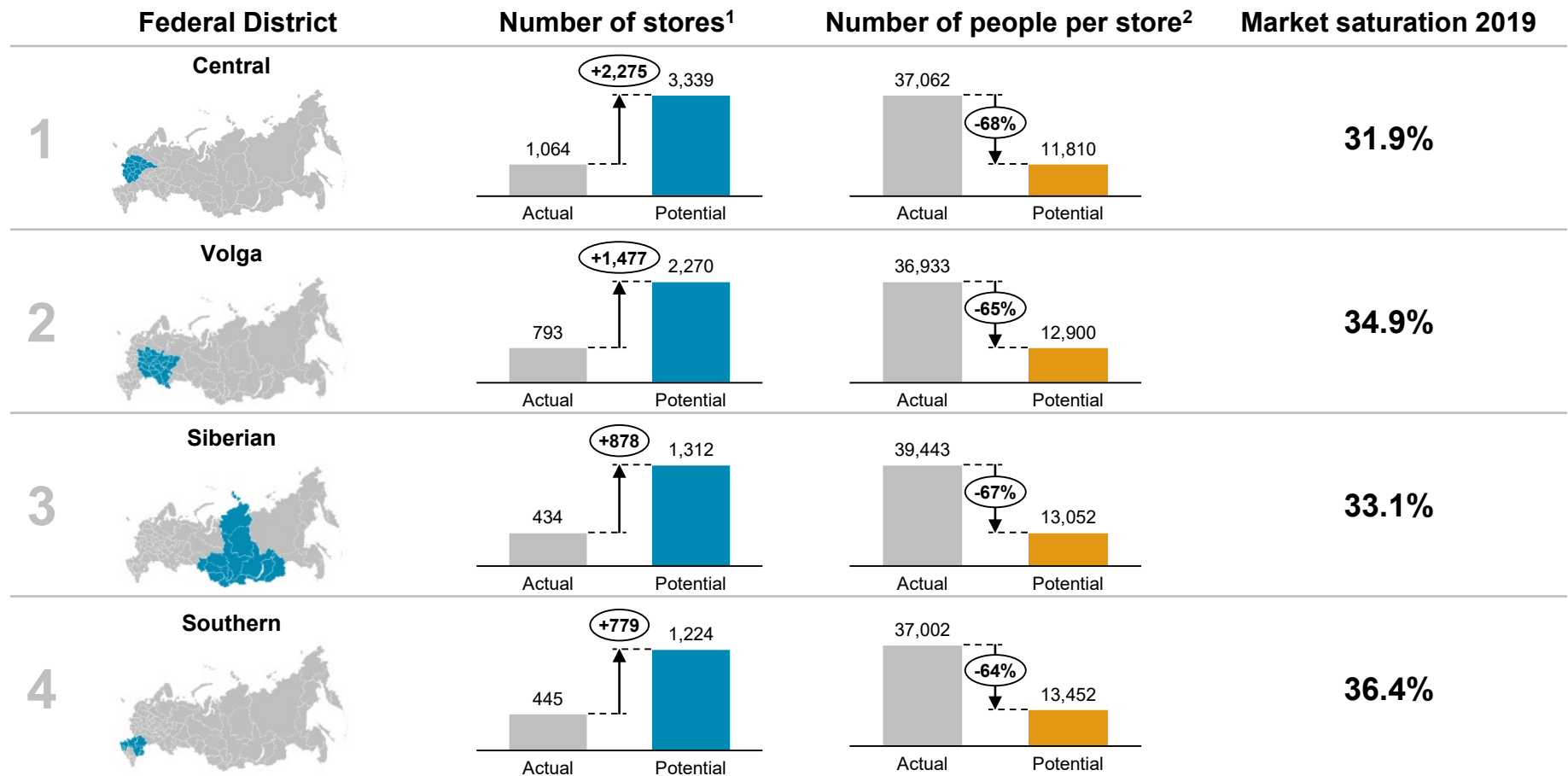
## Bottom-up estimation: potential of Russian Variety Value Retail store market

|   |  Moscow |  Saint Petersburg |  Other >1M cities |  Cities with 0.5-1M |  Cities with 0.25-0.5M |  Cities with 0.05-0.25M |  Cities with <0.05M <sup>1</sup> |  Total Russia |
|---|--|--|---|--|---|--|---|--|
|  Potential total # of Variety Value Retail stores | 1,208  | 472  | 1,721   | 1,533  | 2,248   | 2,732  | 1,784   | <b>11,698</b>  |
|  Variety Value Retail market saturation, %       | 23.5%  | 20.6%  | 30.5%   | 34.6%  | 23.8%   | 35.6%  | 39.6%   | <b>31.2%</b>   |
|  Potential # of people per store                 | 10,495   | 11,437   | 9,076   | 9,234  | 8,975   | 9,423  | 17,316  | <b>12,545</b>  |

1. Cities and villages with population <5,000 people are excluded from analysis  
 Source: Federal State Statistics Service Rosstat, Euromonitor, Oliver Wyman analysis

# Federal districts differ significantly by level of Variety Value Retail stores saturation and population per stores (1/2)

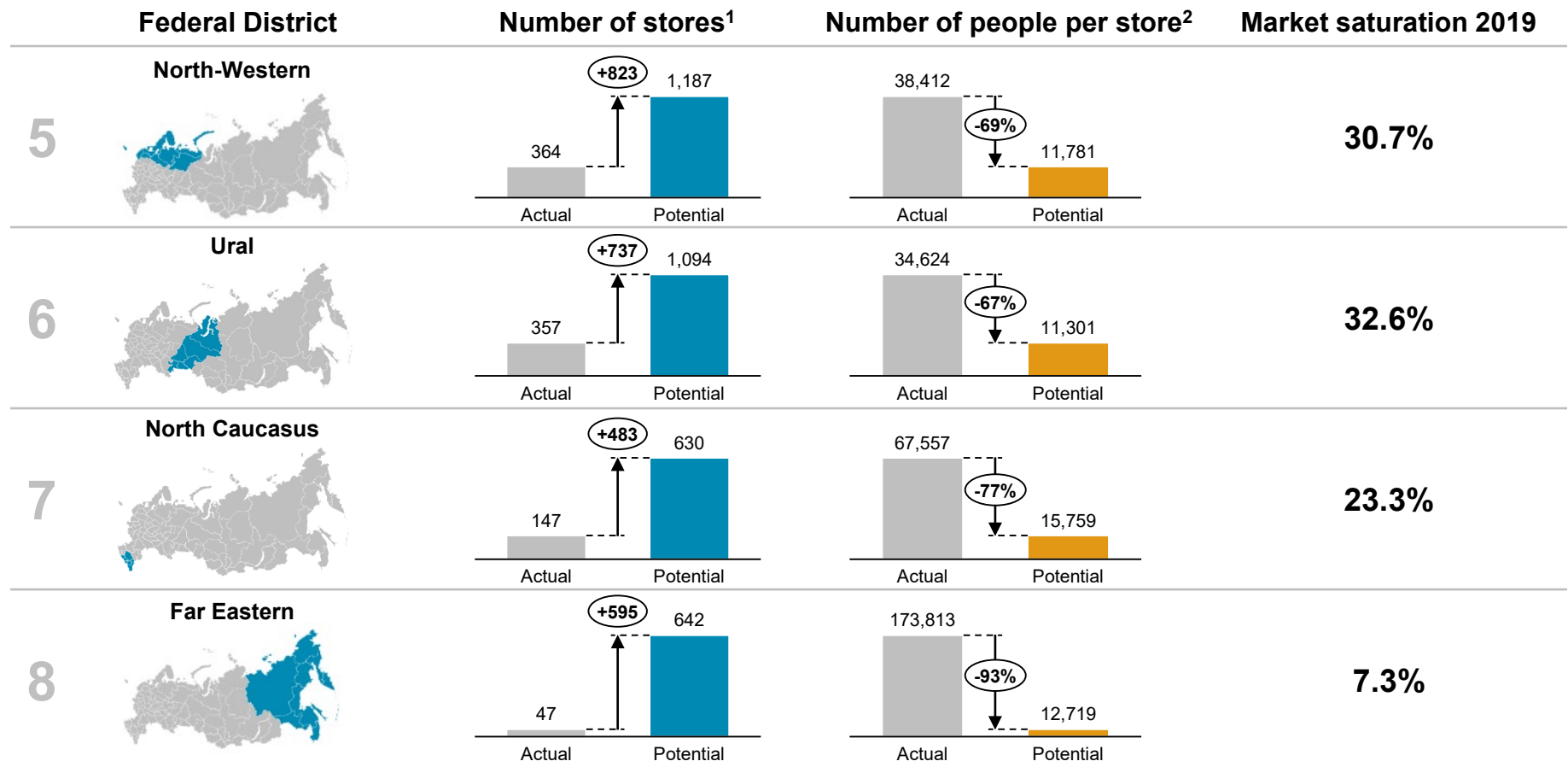
## Variety Value Retail stores market saturation analysis by Federal District, 2019



1. Potential # of stores is calculated as an outcome of bottom-up estimation analysis of white spaces performed on city and cluster level (by population) and then consolidated into District level. 2. Number of people per store calculated as total population of the District divided by actual or potential # of stores;  
 Source: Federal State Statistics Service Rosstat, Euromonitor, Oliver Wyman analysis

# Federal districts differ significantly by level of Variety Value Retail stores saturation and population per stores (2/2)

## Variety Value Retail stores market saturation analysis by Federal District, 2019



1. Potential # of stores is calculated as an outcome of bottom-up estimation analysis of white spaces performed on city and cluster level (by population) and then consolidated into District level. 2. Number of people per store calculated as total population of the District divided by actual or potential # of stores;  
 Source: Federal State Statistics Service Rosstat, Euromonitor, Oliver Wyman analysis



# Top-down analysis based on international benchmarks also shows that Russian Variety Value Retail market has potential for growth

## Current international Variety Value Retail capacities, people per # of Variety Value Retail stores, 2019



| Methodology explanation       | Current  |  | Predicted, 2019   |  | Predicted, 2024  |  |
|-------------------------------|--|--|---|--|--|--|
|                               | Calculated based on 2019 number of stores & population |  | Calculated based on 2019 macro data, showing where the market should have been now <sup>1</sup> |  | Calculated based on expected by 2024 macro data, showing where the market should arrive by 2024 <sup>1</sup> |  |
| USA                           | 10,345   |  | 9,641   |  | 8,230  | ➤ Weak competitive landscape due to low concentration of discount stores   |
| Russia Potential <sup>2</sup> | 15,670   |  | 15,670  |  | 12,399   |  |
| Germany                       | 22,474   |  | 23,088  |  | 18,262   | ➤ Growth of competition and decrease in consumer spend at the same time, but at a smaller rate                                 |
| UK                            | 23,896   |  | 25,041  |  | 21,577   |  |
| Canada                        | 25,728   |  | 21,218  |  | 19,311   |  |
| Russia Actual                 | 40,194   |  |   |  |  | ➤ The lowest consumer spend per capita in the presented country list as the main reason for Variety Value Retail stores growth |
| Netherlands                   | 40,953   |  | 44,076  |  | 27,040   |  |

1. Based on correlations (regression analysis) observed on mature markets 2. Predicted potential number of people per Variety Value Retail store in Russia; Note: The list of countries is non-exhaustive, but all of them were included into the regression analysis; our description of reasons for the currently observed figures on Variety Value Retail stores markets capacities is based on regression analysis; Source: Euromonitor, Oliver Wyman analysis



## **3. Variety Value Retail stores market development**

3.2 Potential market value  
estimation by 2027

## Long-term addressable market evaluation provides different Variety Value Retail market prospective until 2027 depending on expansion scenarios

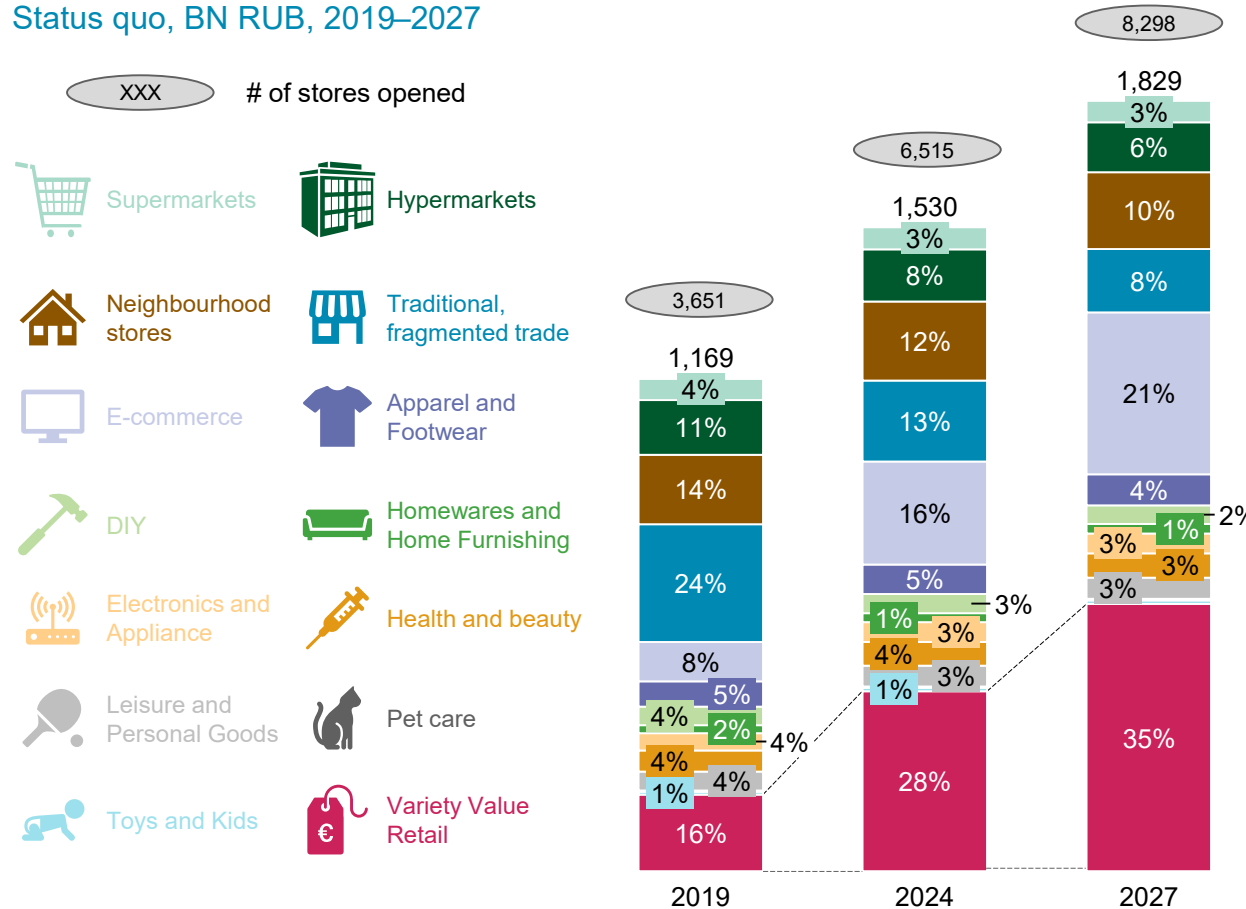
- We estimate Variety Value Retail **addressable market** volume can reach **1,530 BN RUB in 2024 and 1,829 BN RUB in 2027** based on current competitive landscape under model assumptions
- **Status quo scenario summarized in the next pages implies Fix Price store opening in accordance with current company plans and continuation of the historical growth pace for competitors, leading to estimated Variety Value Retail achieving 28% of addressable market in 2024 and 35% in 2027**
- **Scenario assumes no disruptor (online or offline) appears in the market**

# Scenario assumes no other major offline or online player appearing in the Russian Variety Value Retail market in the next few years

|   | Assumption   | Rationale   |
|---|--|---|
| 1 | No other major <b>offline</b> Variety Value Retail <b>players</b> appears in the market    | <ul style="list-style-type: none"><li>• Potentially high entry barriers: new player would need to set-up retail network, brand and set-up operations and supplier relations</li><li>• Not focus for large retail players: market is rather small, so far major retail players have been focusing on developing grocery stores formats</li></ul> |
| 2 | No <b>e-commerce players</b> aggressively start expanding into Variety Value Retail market | <ul style="list-style-type: none"><li>• Customers are used to purchase Variety Value Retail offline in neighbourhood stores</li><li>• Average ticket of Variety Value Retail stores is comparable with cost of delivery</li></ul>   |

# Variety Value Retail can seize 28% of addressable market following current strategic plans by 2024 and 35% by 2027

## Variety Value Retail market dynamics, Status quo, BN RUB, 2019–2027



## Main assumptions, Status quo

- Variety Value Retail share mostly grow due to cannibalization of traditional, fragmented trade
- E-commerce share increases
- Number of stores opened by Fix Price, as per strategic plans
- Competitors maintain historic growth with adjustment to the low base
- No other offline Variety Value Retail store captures large share of market

Note: See more details in Appendix

Source: Federal State Statistics Service Rosstat, Euromonitor, GfK, Fix Price company data, Oliver Wyman analysis

# Fix Price maintains 93% market share in Variety Value Retail market in Status quo scenario by 2027

**Russian Variety Value Retail addressable market by channels**  
Status quo, BN RUB, 2027

**Variety Value Retail market by key players**  
Status quo, BN RUB, 2027

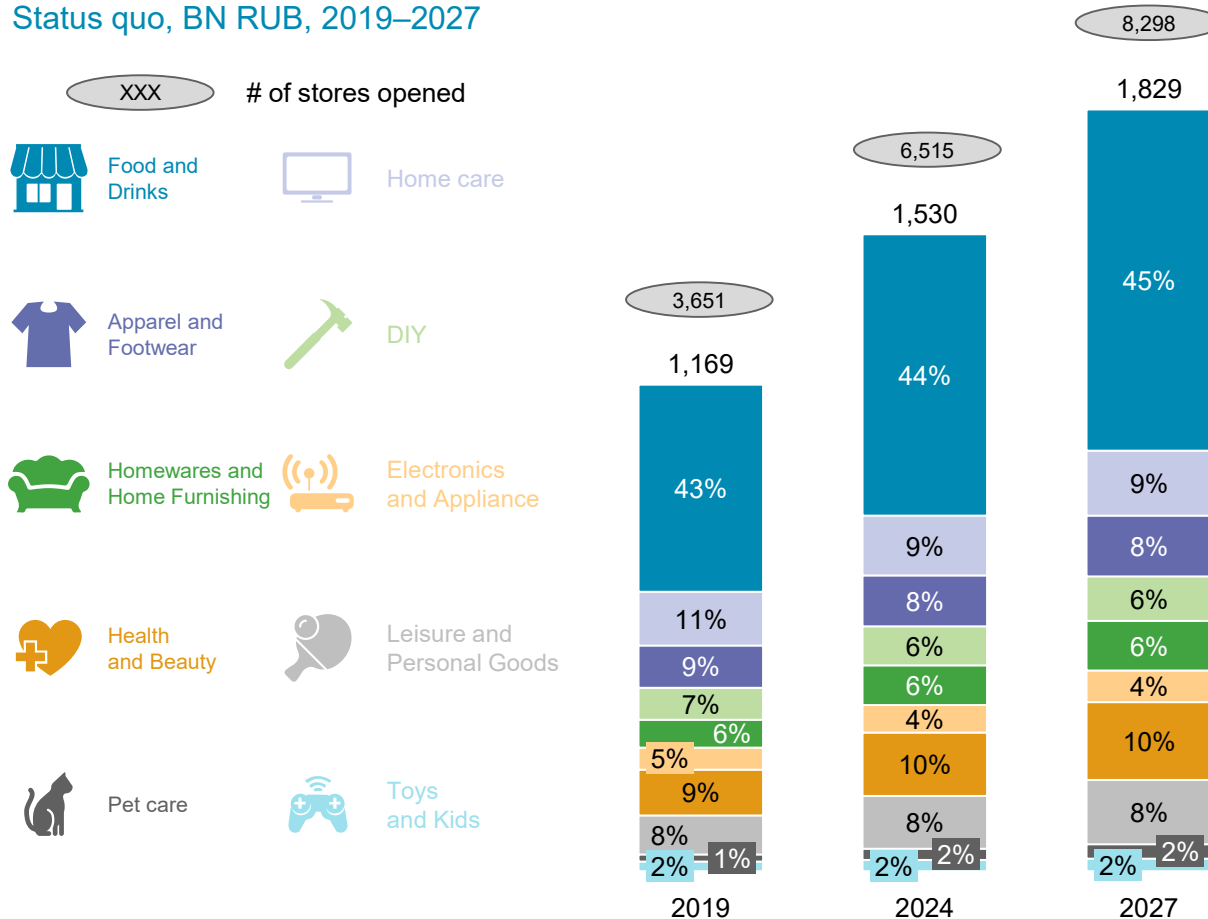


-   
 Supermarkets
-   
 Neighbourhood stores
-   
 E-commerce
-   
 DIY
-   
 Electronics and Appliance
-   
 Leisure and Personal Goods
-   
 Traditional, fragmented trade
-   
 Apparel and Footwear
-   
 Homewares and Home Furnishing
-   
 Health and Beauty
-   
 Pet care
-   
 Toys and Kids

Source: Federal State Statistics Service Rosstat, Euromonitor, GfK, Fix Price company data, Oliver Wyman analysis

# Split by categories is stable, Food and Drinks is the largest category on addressable market

Variety Value Retail addressable market development by categories  
Status quo, BN RUB, 2019–2027



Key facts,  
Status quo

- Category split doesn't change much over time
- Food and Drinks would maintain leading category position with slightly growing market share
- Differences between categories reflect downtrading to Variety Value Retail channel and basket effect
- Non-grocery categories drop because of effect described above

Note: See more details in Appendix

Source: Federal State Statistics Service Rosstat, Euromonitor, GfK, Fix Price company data, Oliver Wyman analysis

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A silhouette of a signpost with several directional arrows pointing in different directions, set against a vibrant sunset sky with shades of orange, red, and blue. The signpost is on the left side of the image, and the sky transitions from a deep blue at the top to a bright orange at the bottom. A white diagonal line separates the image from the text on the right.

## **4. Assessment of other business options**

### 4.1 Opportunities in Kazakhstan, Belarus and Uzbekistan

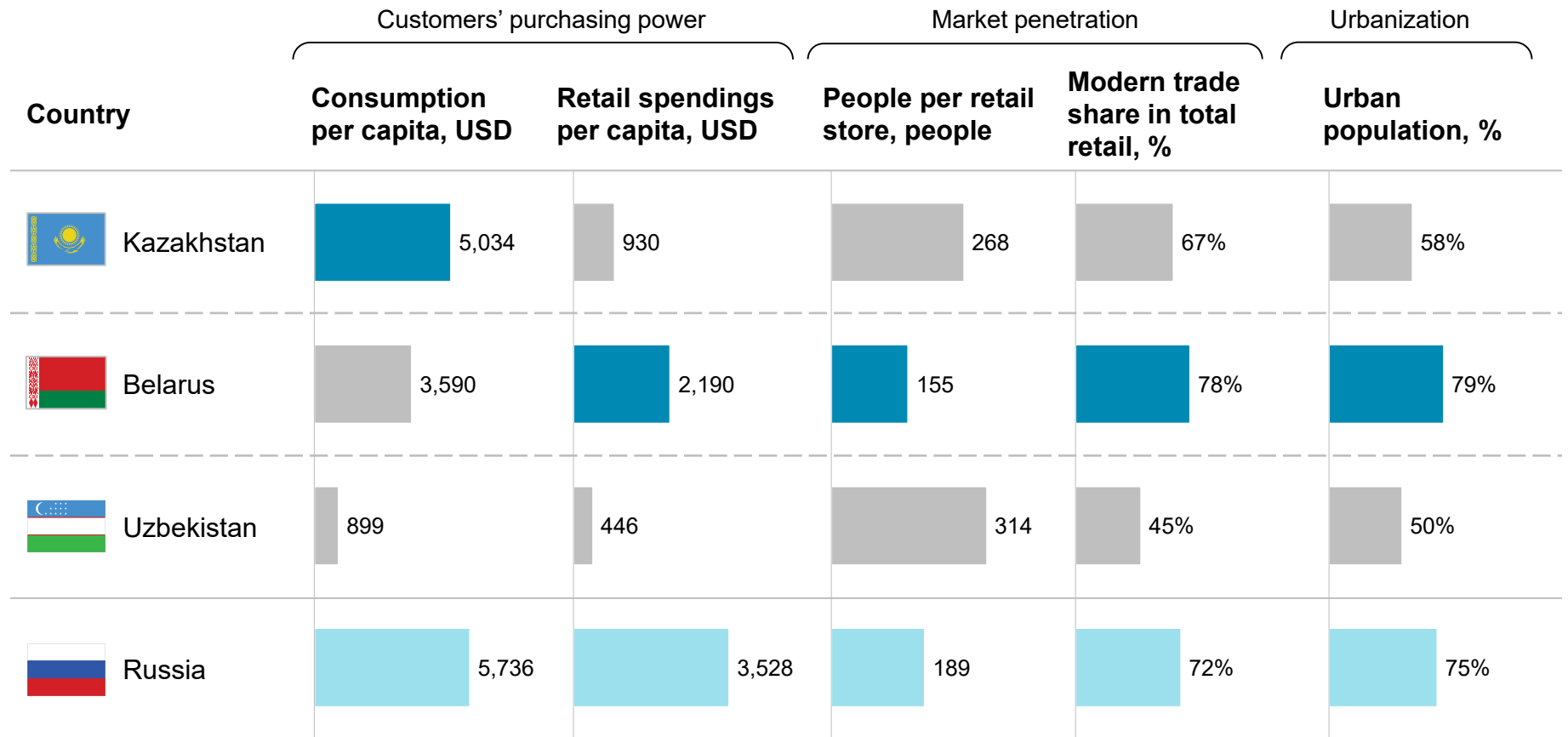
## Variety Value Retail differs between Kazakhstan and Uzbekistan on the one side, and Belarus on the other side

- **Retail market of Belarus is close to Russian in terms of structure**, but Belarussian modern trade penetration is still on lower stages of development
- Retail markets of **Kazakhstan and Uzbekistan are underdeveloped** and demonstrate significantly **lower level of modern trade** channels than Russian market
- Population and economic activity of **Kazakhstan and Uzbekistan are unevenly distributed** and significantly **skewed towards capitals and big cities**, which therefore occur more attractive for retail players than distant regions with lower population and incomer per capita
- **Belarusian regions are quite similar to each other** in terms of average income and retail market activity, but Minsk still distinguishes having much higher population
- **Variety Value Retail** already has **strong presence in Belarus** with 3 competitive players, while in **Kazakhstan and Uzbekistan the market is still emerging**

# The selected countries have quite similar economic and demographic situation to Russia, with Belarus being most alike

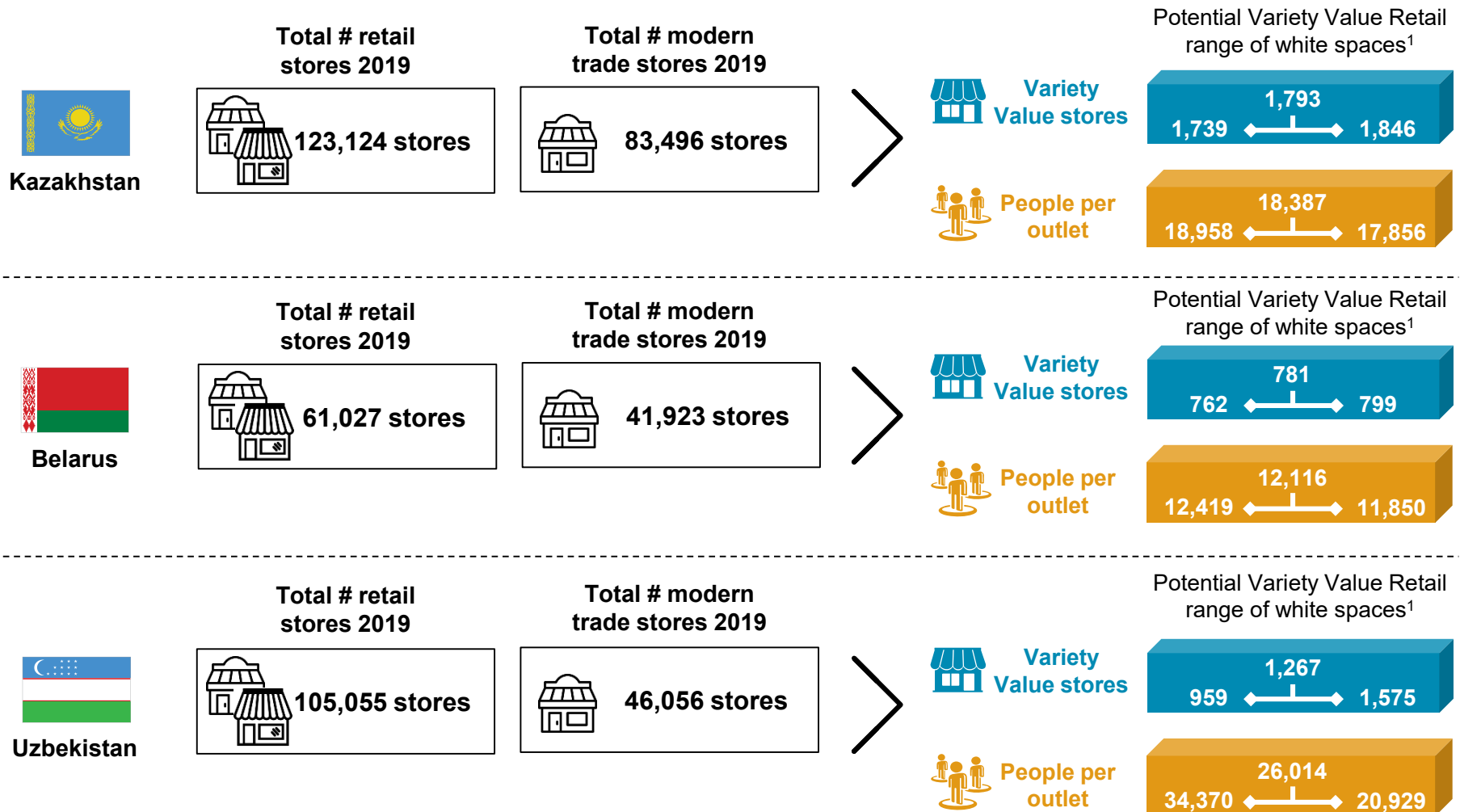
## Comparison of selected CIS and Baltics countries, 2019

■ Russia 
 ■ Most similar to Russia 
 ■ Other selected countries



Source: Euromonitor, Countries Federal Statistics Services

# Each of the selected CIS countries have potential range of available white spaces for further development of Variety Value Retail market



1. Potential # of white spaces is calculated based on projection of Russian bottom-up calculation results on the three selected countries  
 Source: Euromonitor, Countries Federal Statistics Services, Oliver Wyman analysis

# Variety Value Retail market saturation of whitespaces differs substantially with Kazakhstan and Uzbekistan being significantly underpenetrated

## Variety Value Retail stores market saturation analysis by Federal District, 3Q2020



1. Potential # of stores for Kazakhstan, Belarus and Uzbekistan is estimated as a mean of the identified white spaces range 2. Number of people per store calculated as total population of the country divided by actual or potential # of stores; Source: Countries' Federal Statistics Services, Euromonitor, Oliver Wyman analysis

A photograph of a wooden surface, possibly a table, with a clear spray bottle and a light blue surgical mask. The spray bottle is in the upper left, and the mask is in the lower left. A white diagonal line separates the image from the text on the right.

## 4. Assessment of other business options

4.2 COVID implications and deep dive into 2020H1

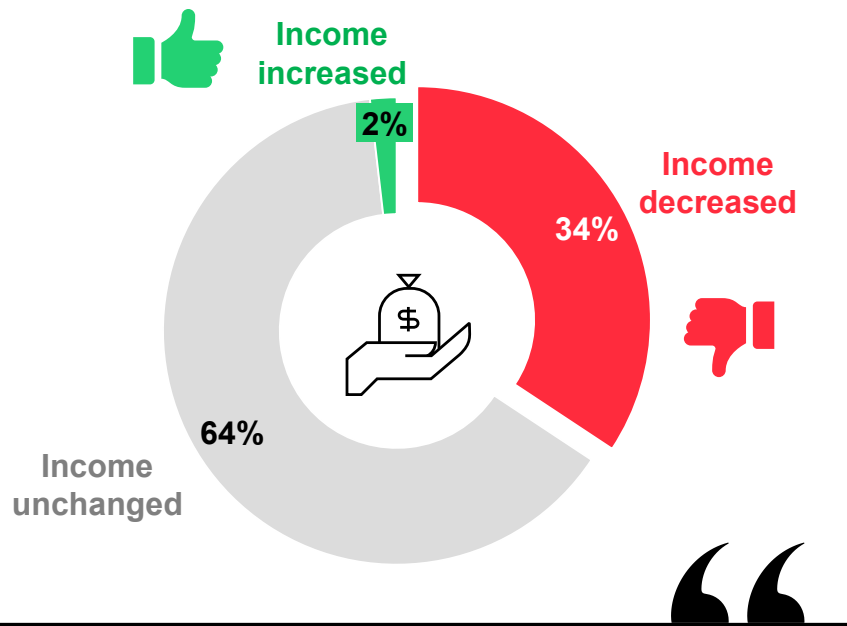
## Post first wave of COVID-19 we observe two main implications: behavioural shift and income impact

- COVID-19 has **reinforced** several **consumer trends**
- Many customers are reporting **loss of income**, which negatively impacts **spending** and further develops feeling of **uncertainty**
- Customers continue hunt for **best prices and offers**, advantaging **discounters** and increasing importance of promo and **price-value comparison**
- Customers tend to decrease time out of home, **minimizing number of store visits** and preferring **proximity stores** – also **stocking up** to avoid second visit in the future
- **Variety Value Retail** stores **benefit** from these changes of consumer trends, demonstrating **positive dynamic** during COVID-19 restrictions

34% of customers have lost at least part of their disposable income, which pushes them to reduce spending and prefer cheaper brands

### Impact on household income

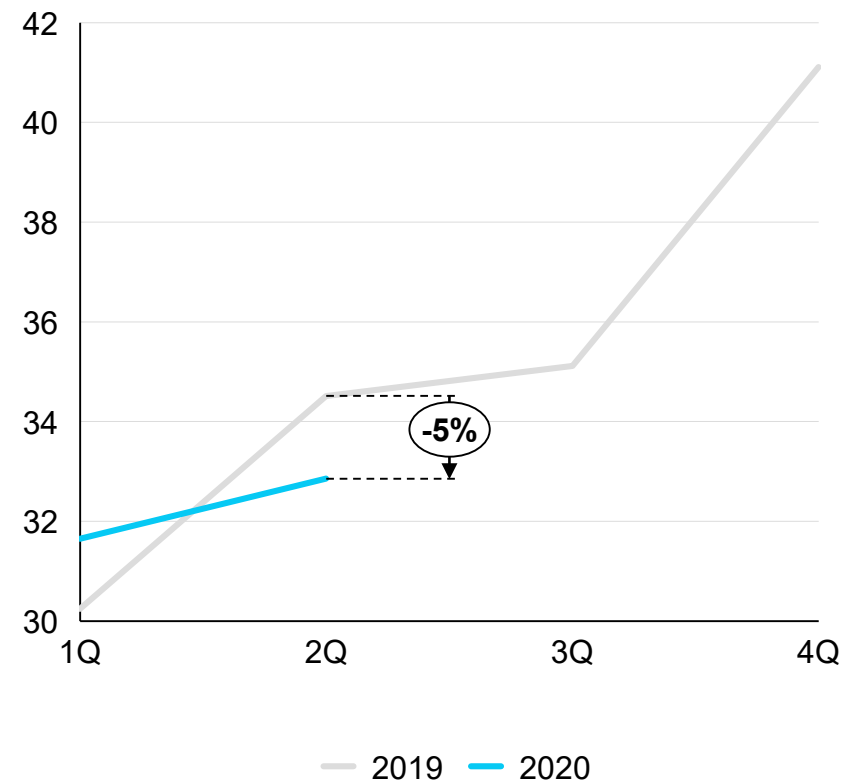
Q: How has your household income changed during COVID-19 crisis?



*I have been laid off, and my husband got paid 20% less. I still can't find a new job*

*Elena, 46, Novosibirsk*

### Average monthly income per capita, '000 RUB



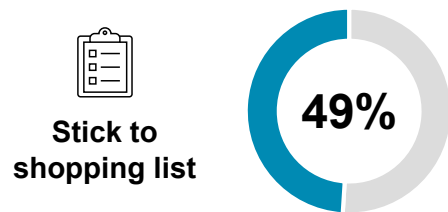
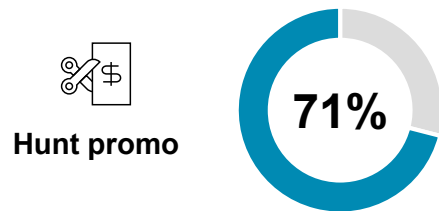
Source: Customer Survey: September 2020 (2000 respondents), Rosstat, GFK



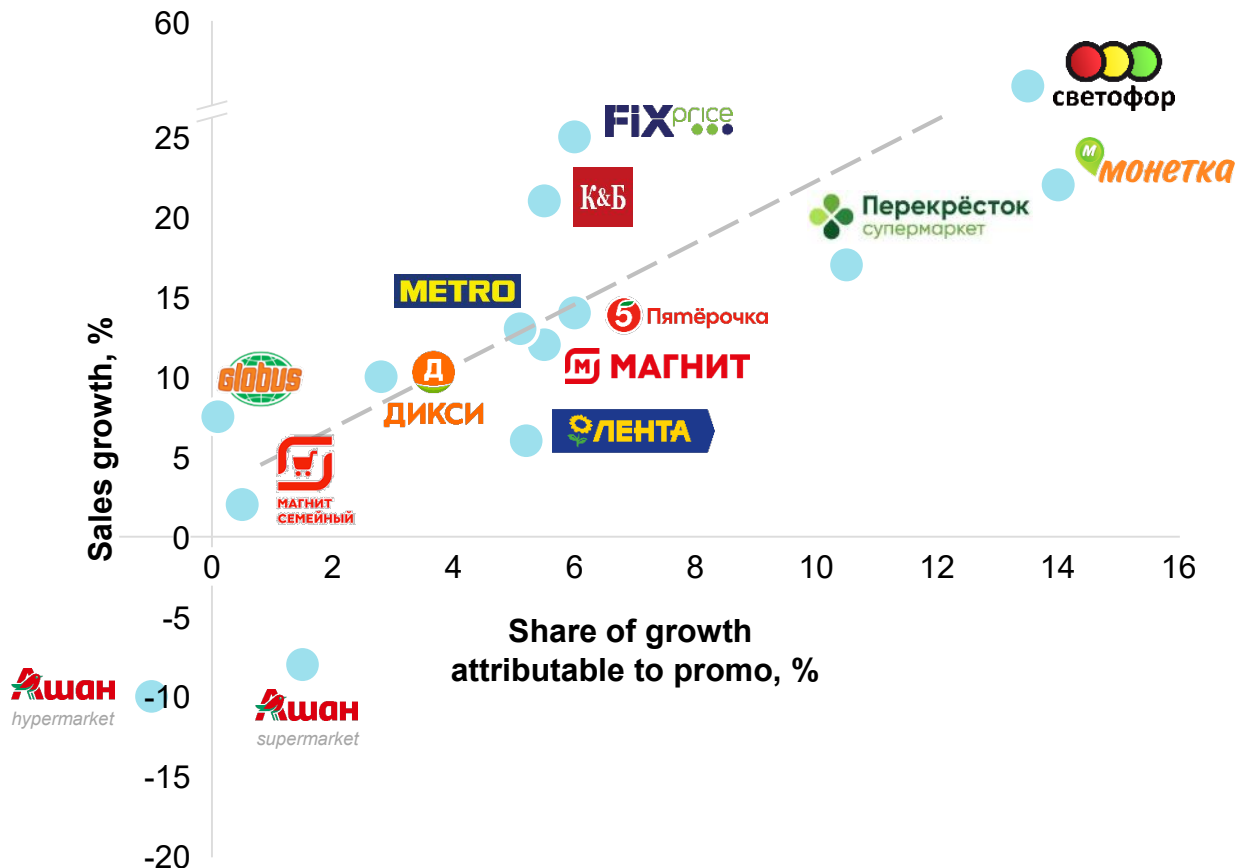
# As before, customer look for bargains to save money - promo playing significant role in supporting retailers' sales growth during COVID-19 pandemic

## Top customer strategies for economy in 2020

Q: What are your main strategies for saving?



## Volume growth compared to promo share: Consumer Goods sales 1H 2020 vs 1H 2019

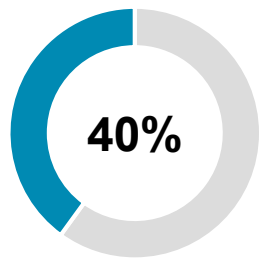


Source: Customer Survey: September 2020 (2000 respondents); GFK

# 33% of customers have either changed channel or main store - customers switched to visiting limited number of proximity stores

Changes in purchase behavior compared to pre-COVID, May 2020, % customers<sup>1</sup>

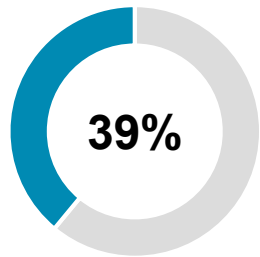
Share of customers which will stick to this behavior going forward



Choose stores in proximity, easy to reach



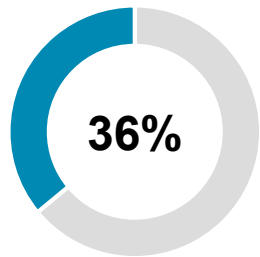
58%



Try to buy everything in one store



54%



Try to visit as few stores as possible

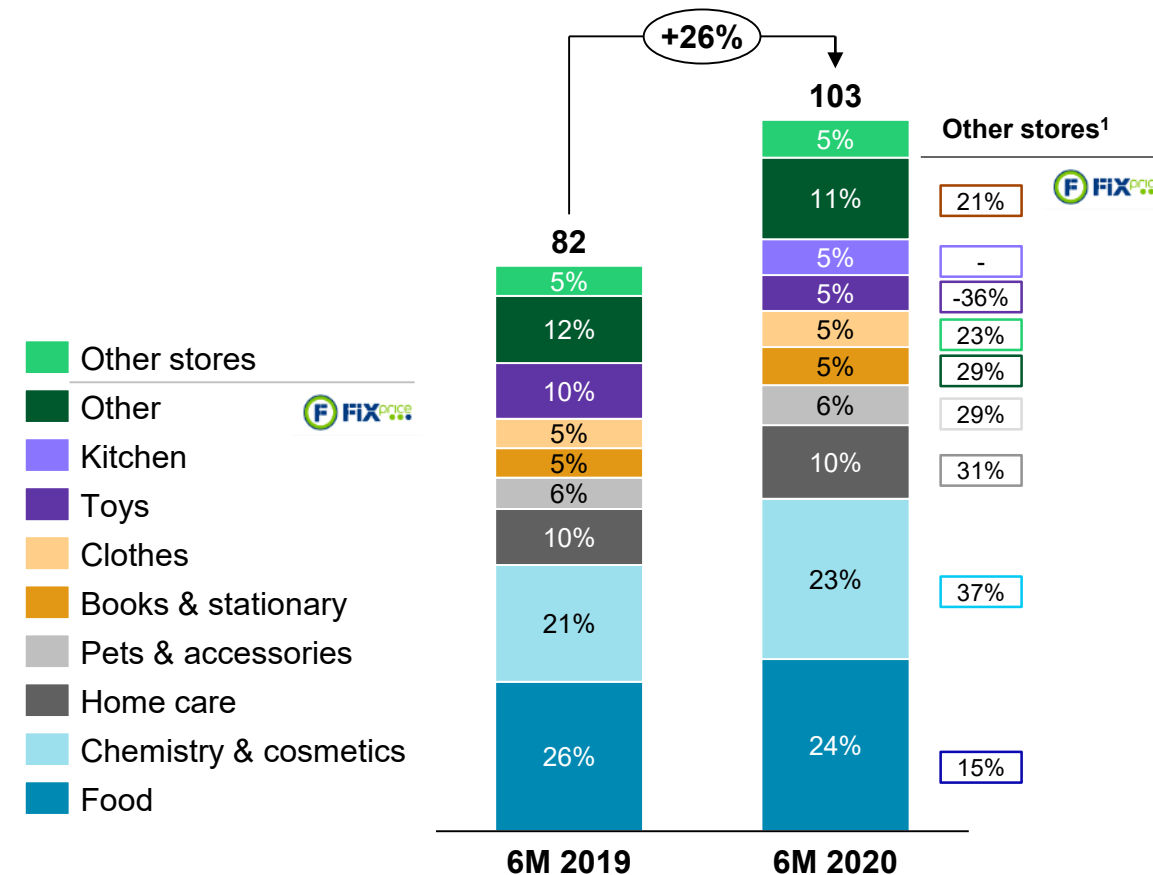


36%

<sup>1</sup> Q: How did your purchasing behaviour change during COVID-19 restrictions?  
Source: Customer Survey: September 2020 (2000 respondents); GfK

# Being a substitute for a range of non-food retail stores, Variety Value Retail stores have shown significant growth in COVID-19 times

## Total Variety Value Retail market by category, BN RUB



### Variety Value Retail gained large traffic during COVID-19 crisis:

- Stayed open due to food assortment
- Fit overall trend of economy and low prices
- An alternative to specialist non-food retail
- Proximity advantage due to convenient location

*I started going to Fix Price to buy toys when toy stores were closed. Now I buy everything there*

Anna, 42, Kazan

1. Assortment of Home Market, Euro shop and other Variety Value Retail players  
Source: Customer Survey: September 2020 (2000 respondents); GfK

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## **4. Assessment of other business options**

- 4.1 Opportunities in Kazakhstan, Belarus and Uzbekistan
- 4.2 COVID implications and deep dive into 2020H1

5

## **5. Appendix**

- 5.1 Addressable market development details
- 5.2 White space analysis additions and sources



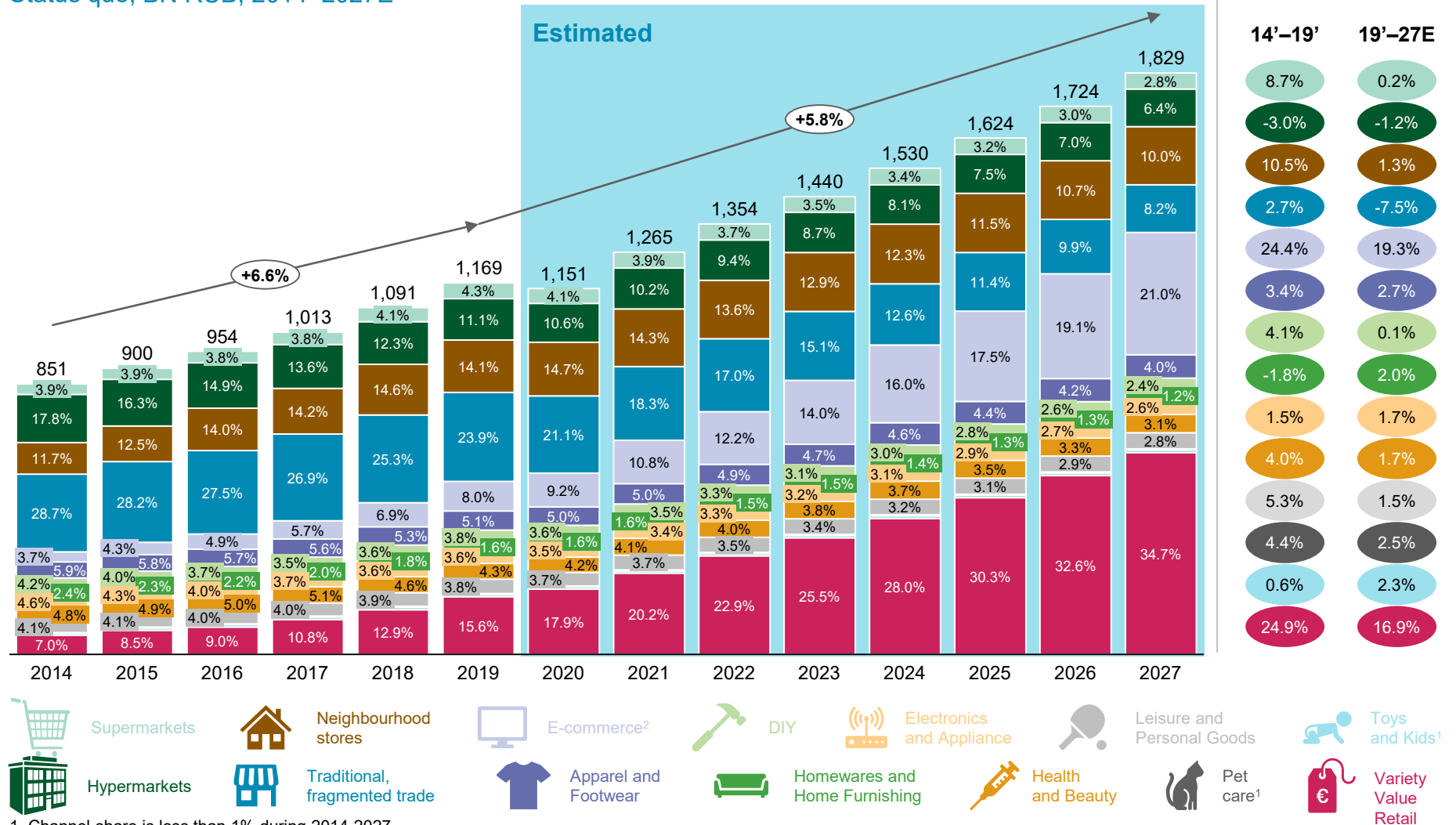
## 5. Appendix

### 5.1 Addressable market development details

# In Status quo Variety Value Retail is estimated to grow at CAGR of 16.9% till 2027

Development of Russian Variety Value Retail as a part of addressable market  
Status quo, BN RUB, 2014–2027E

CAGR for channels,  
RUB, 2014–2027



1. Channel share is less than 1% during 2014-2027

Source: Federal State Statistics Service Rosstat, Ministry of Economic Development, Euromonitor, GfK, Oliver Wyman analysis

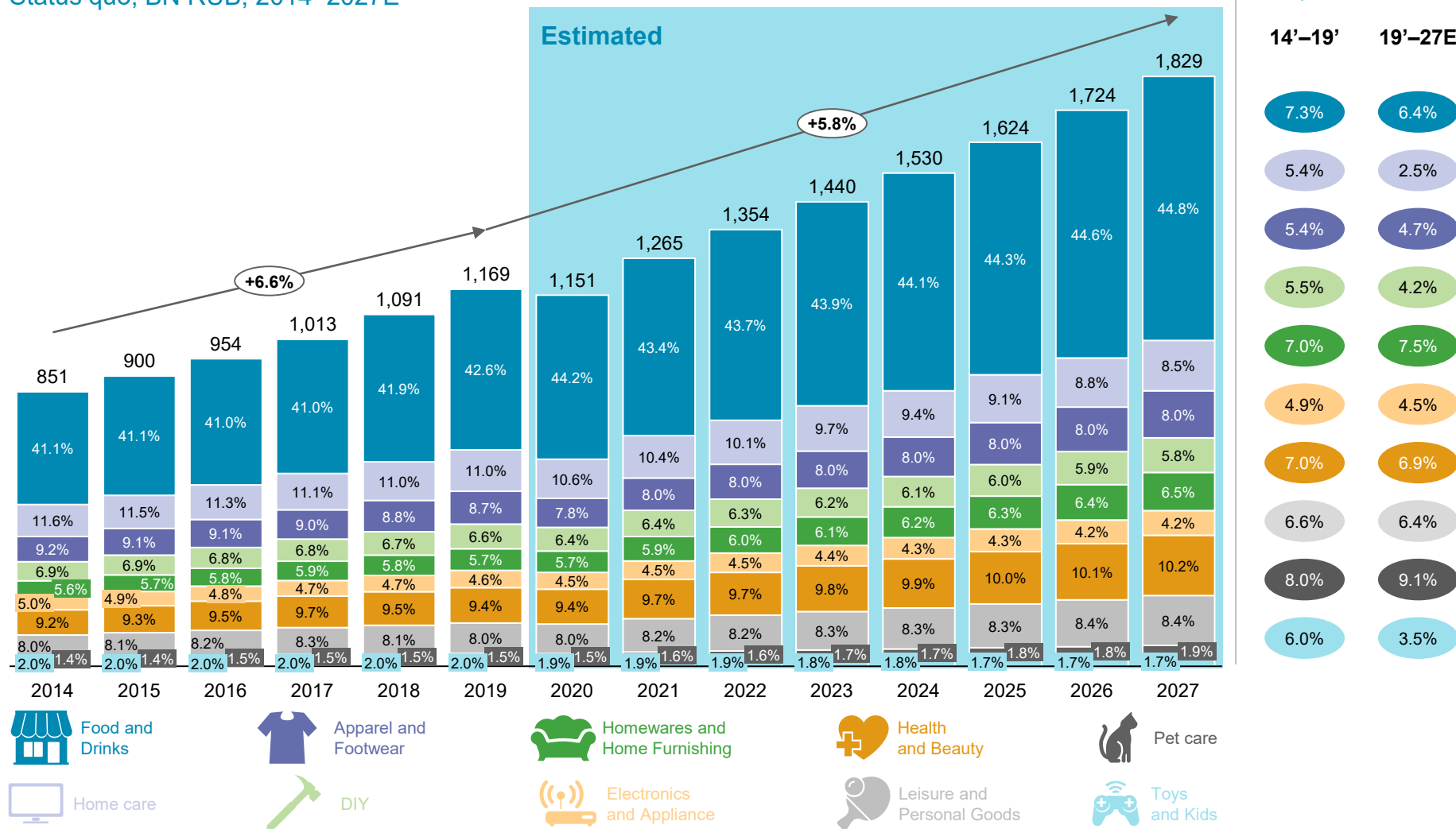
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# Split by categories is estimated to be stable, Food and Drinks is the largest category on addressable market currently accounting for 44.8% by 2027

## Russian Variety Value Retail addressable market development by categories

Status quo, BN RUB, 2014–2027E

## CAGR for categories RUB, 2014–2027E



Source: Federal State Statistics Service Rosstat, Ministry of Economic Development, Euromonitor, GfK, Oliver Wyman analysis

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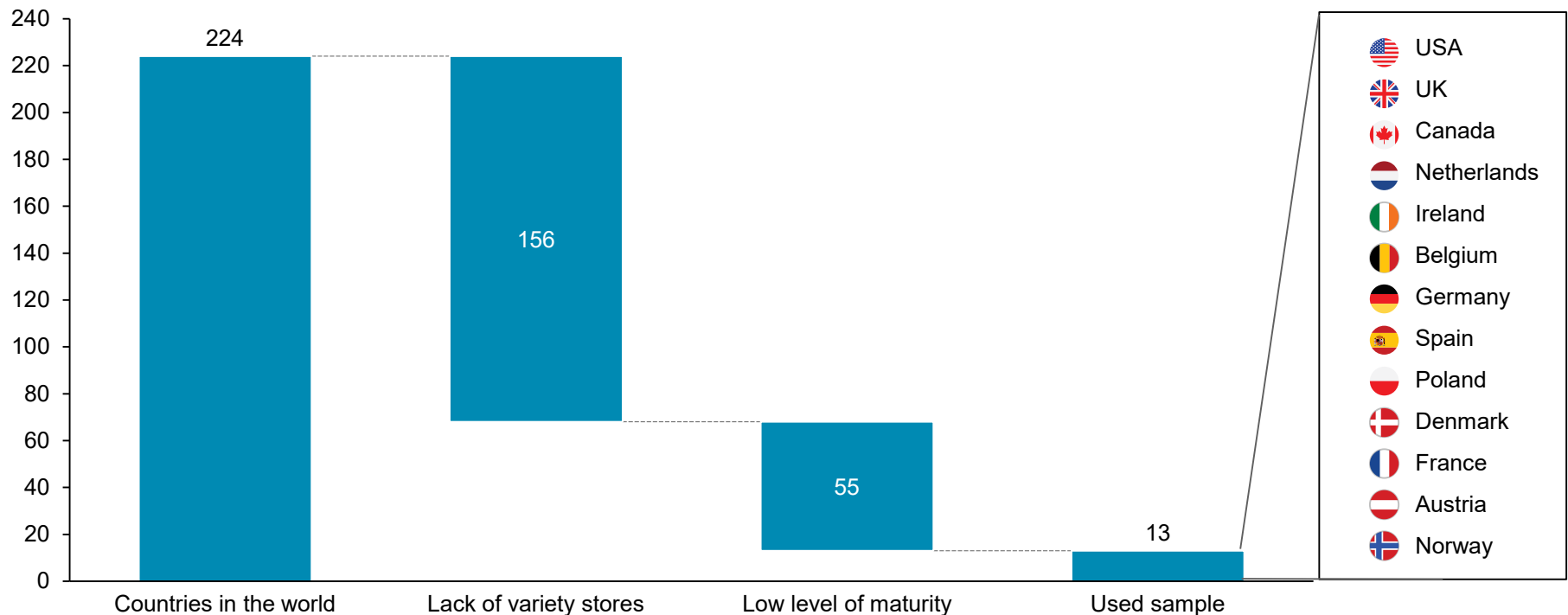


## 5.2 White space analysis additions and sources



For the estimation of the potential factors influencing the development of the Variety Value Retail market cross-sectional data set was constructed that includes number of countries with high level / medium level of maturity

### Description of data set for the regression analysis



Source: Oliver Wyman market research databases

# Primary non-exhaustive list of used sources

## Market players official reports

- Magnit Databook 2019
- X5 Retail Group Annual reports, Operational and Financial Highlights, 2019
- X5 Retail Group Investor presentations 2019-1H2020
- Lenta Databook 2019
- Lenta annual report 2019
- Detsky Mir Company Presentations 2019
- B&M Annual Report & 2019
- Dollarama Annual Information Form 2019
- Dollar General 2019 Annual report
- Poundland Group plc annual report 2019



## Public Authorities Data

- Ministry of Economic Development of the Russian Federation, 09.2020
- Federal State Statistics Service Rosstat up to 09.2020
- National statistical bureaus 09.2020:
  - National Statistical Committee of the Republic of Belarus
  - Ministry of National Economy of the Republic of Kazakhstan
  - State Committee of the Republic of Uzbekistan on Statistics



## Analytical agencies data and industry publications

- Russian consumer market and FMCG retail chains rating, June 2020
- Bloomberg
- Euromonitor
- РБК
- Planet Retail
- Retailer.RU
- AKIT
- Factiva
- Capital IQ
- e-commerce Europe
- Fitch Solutions



## Customer behavior researches

- Nielsen “Post-quarantine customer shopping missions”, June 2020
- GfK Household Panel, 1H2020
- GfK market researches 09.2020:
  - FMCG trends
  - E-commerce development prospective
  - Shop selection
  - HoReCa in COVID
  - etc.
- Customer Perception Study (CPM), 09.2020



