

M&A PROJECTS: ESTABLISHMENT OF M.VIDEO–ELDORADO GROUP

IN 2018, M.VIDEO CLOSED THE LARGEST M&A DEAL IN ITS HISTORY WITH THE ACQUISITION OF ONE OF ITS KEY COMPETITORS, ELDORADO. THE EFFECTIVE INTEGRATION OF THE LATTER AND THE CREATION OF M.VIDEO–ELDORADO GROUP ON THE BASIS OF A COMPLEX TRANSFORMATION PLAN WAS AN UNPRECEDENTED PROJECT NOT ONLY FOR RUSSIA BUT ALSO FOR THE GLOBAL CONSUMER ELECTRONICS INDUSTRY. LATER IN THE YEAR, THE GROUP ACQUIRED THE RUSSIAN BUSINESS OF MEDIAMARKT, INCLUDING ITS 40+ STORES IN EXCELLENT LOCATIONS IN MOSCOW AND OTHER PARTS OF THE COUNTRY. AS A RESULT OF THESE STRATEGIC M&A DEALS, AS WELL AS CONTINUED ORGANIC GROWTH, THE GROUP'S REVENUE INCREASED BY 60% BY THE END OF THE YEAR, WHILE EBITDA WAS UP BY NEARLY 80%, AND THE RUSSIAN MARKET WELCOMED FOR THE FIRST TIME A TOP-10 GLOBAL PLAYER AMONG PUBLICLY TRADED COMPANIES IN TERMS OF REVENUE AND THAT IS AMONG THE TOP THREE IN TERMS OF EBITDA MARGIN.

ACQUISITION OF ELDORADO

In April 2018, PJSC M.video announced the completion of a transaction for the purchase, by its subsidiary LLC M.video Management (currently LLC MVM), of a 100% stake in ELDORADO LLC. The deal was a landmark event for the entire Russian consumer electronics market, marking the beginning of the deepest wave of consolidation in its history. As a result of the transaction, M.Video–Eldorado Group was created, uniting the two most recognisable brands in Russia in their segment and becoming the undisputed market leader with a share of 25.6% in net turnover and one of the 10 largest publicly traded retailers in the world in the household appliances and consumer electronics sector in terms of revenue and operating margin.

Key parameters of the transaction

The acquisition of ELDORADO LLC was valued at RUB 45.5 billion – not including its debt – which corresponded to a fair market estimate on the basis of discounted cash flows as conducted by a Big Four auditor. In order to finance the deal, LLC MVM borrowed approximately RUB 40 billion from VTB Bank and used about RUB 5.5 billion of its own funds.

As part of the transaction, the Group fulfilled all the necessary requirements and received permits in strict accordance with Russian legislation and best corporate governance practices. On 16 April 2018, the terms of the transaction were approved by an extraordinary general meeting of shareholders of PJSC M.video. The meeting also approved security measures

on the loan taken out by LLC MVM for the transaction in the form of a guarantee, a pledge of shares in the capital of LLC MVM and a pledge of exclusive rights to trademarks. The decision was approved by 89.8% of the votes of all shareholders who took part in the meeting and by 72.2% of the votes of shareholders who were not interested in the transaction and who took part in the meeting¹.

Strategic significance of the transaction

The merger of M.Video and Eldorado allowed us to create a new large-scale organisation with a sustainable business model and to establish a market leader, while also increasing customer reach in terms of price segmentation, product categories and regional coverage, and realising significant synergies from the merger of large competing companies and brands.

Key objectives of the acquisition:

- creation of an undisputed market leader with an attractive investment history and strong growth prospects;
- expansion of the Group's presence in all client segments, including the mass market segment;
- providing the best-possible degree of operational efficiency as a result of economies of scale and the creation of positive synergies;
- creation of a large-scale company with a sustainable business model that establishes the best business standards in the industry and sets market trends.

¹ In accordance with the laws of the Russian Federation, minority shareholders of PJSC M.video who did not vote for the transaction received the right to have their shares repurchased within 45 days from the date of the extraordinary general meetings of shareholders at a price of RUB 401 per share. The buyback price was determined by the Board of Directors on the basis of a report from an independent appraiser and is close to the weighted average closing price of PJSC M.video shares on the Moscow Exchange for the 12 months preceding the transaction.

Principles of integration

The key principles of the integration of M.Video and Eldorado are: two brands, one company, one business model.

| Key principle | Characteristic |
|--------------------|--|
| Two brands | <ul style="list-style-type: none"> Group presence in all market segments and regions of Russia Successful brand competition in traditional retail and online |
| One company | <ul style="list-style-type: none"> Synergies and economies of scale Management efficiency |
| One business model | <ul style="list-style-type: none"> Application of M.Video's successful operating model for the Eldorado brand, restart of Eldorado's business model Sharing of best practices that benefit both brands |

The merged company has created consolidated functions for the two brands, including commercial procurement, personnel management, logistics, administrative and business issues, IT and finance. In addition, each brand is managed by a separate team responsible for operational management, retail and marketing. The new organisational structure enabled the Group to improve the efficiency of its functions, share experience and expertise and conduct joint competitive negotiations concerning the choice of partners. As a result, the M.Video and Eldorado networks have the opportunity to direct more resources to improving the quality of retail operations and customer service.

The formation of a unified IT system and the process of the legal merger of M.Video and Eldorado was completed in February 2019 on the basis of the Group's main operating company, LLC MVM.

The Group's revenue increased by

+60%
by the end of the year

More than

RUB 6 billion
in EBITDA synergies in 2018

Eldorado restart

As part of the integration of Eldorado, the Group restarted the Eldorado business by carrying out the following key projects:

- transition to an omni-channel model (unified offer, prices and approach to online and offline sales);
- the removal of non-core product categories from Eldorado's offer;
- increasing the focus on the range of digital products;
- renewal of the brand, website design and advertising;
- significant expansion of the functionality of the eldorado.ru website;
- optimisation of retail formats, the creation of a new format called Eldorado 600

See 'Customer experience', p. 58



The first results of the combined M.Video–Eldorado Group showed the effectiveness of the chosen integration model. The common business model shared by both retail chains, combined with competition in customer service, promotions and price offers, allowed the two brands to outpace the market in sales in both Q4 2018 and Q1 2019. At the same time, as a result of synergies between M.Video, Eldorado and MediaMarkt stores, the Group received over RUB 6 billion in additional EBITDA in 2018, which greatly exceeded management's original expectations.

Growth rate of the merged business, %

| Indicator | M.Video | Eldorado | Group | Market |
|----------------------------|---------|----------|-------|--------|
| Net turnover | | | | |
| 2018 | 19.6 | 14.1 | 17.7 | 16.6 |
| Q4 2018 | 20.2 | 23.2 | 21.2 | 16.1 |
| Like-for-like sales | | | | |
| 2018 | 12.9 | 14.8 | 13.5 | – |
| Q4 2018 | 11.6 | 20.7 | 14.6 | – |

ACQUISITION OF MEDIAMARKT

In August 2018, M.Video–Eldorado Group continued to consolidate the Russian consumer electronics market, completing a deal to acquire a 100% stake in Media-Saturn-Russland LLC, the Russian business of MediaMarktSaturn. As a result of the transaction, the Group took control of 42 MediaMarkt stores in 22 Russian cities. At the same time, MediaMarktSaturn acquired a 15% stake in PJSC M.video.

Strategic significance of the transaction

As a result of the transaction, the Group acquired control of stores with excellent locations mainly in class A shopping centres and greatly increased its presence in a number of cities and regions: Moscow, St. Petersburg and southern Russia. The acquisition enabled the Group to quickly implement plans to expand its M.Video and Eldorado networks by opening dynamic and profitable sales outlets in the locations that were obtained, with a turnover per square metre approximately one third higher than the Group average.

According to Group estimates, the integration of MediaMarkt's stores will enable the Group to greatly improve their economic model and receive up to an additional RUB 110 billion in revenue and up to an additional RUB 11 billion in EBITDA over four years.

Integration of MediaMarkt stores

MediaMarkt stores were closed for rebranding and refurbishing from 1 September 2018. In 2018, the Group opened 22 M.Video stores and 24 Eldorado stores in these locations. In 2019, 10 more stores will open in former MediaMarkt locations. Following the transaction, the M.Video network also assumed obligations under current legislation on the exchange, return and warranty repair of equipment previously purchased at MediaMarkt stores throughout Russia – MediaMarkt shoppers can contact any M.Video store for information. The Company also retained bonus points accumulated under the MediaMarkt loyalty programme and made it possible to exchange gift cards previously acquired at MediaMarkt for M.Video cards.

In 2018 the Group acquired

42

MediaMarkt stores

22

Russian cities

It is expected that the deal will enable the Group to receive up to an additional

RUB 110 billion in revenue and up to an additional

RUB 11 billion in EBITDA over four years.

Strategic advantages of the transaction

| Advantage | Characteristic |
|--|--|
| Expansion of the network through high-performance stores | <ul style="list-style-type: none"> Continued market consolidation and growth in the Group's market share Owing to the quality of the locations and the Group's business model, the sales from new points per square metre correspond to the best M.Video and Eldorado stores |
| Generating additional revenue and EBITDA | <ul style="list-style-type: none"> As expected, the deal will make it possible to receive up to an additional RUB 110 billion in revenue and up to an additional RUB 11 billion in EBITDA over four years |
| Further improvement of corporate governance | <ul style="list-style-type: none"> Diversification of the Group's shareholder base thanks to MediaMarktSaturn's purchase of a 15% stake in the Group In 2019, Andreas Blase, Chief Investment Director of MediaMarktSaturn Retail Group, joined the Board of Directors of PJSC M.video |
| Access to the expertise of a global player | <ul style="list-style-type: none"> Opportunities for the management of the Group and of MediaMarktSaturn – a leading international retailer in the household appliances and consumer electronics sector – to exchange experiences and knowledge |

Contribution of the acquisition of MediaMarkt stores to the growth of the retail network

THE GROUP SIGNIFICANTLY INCREASED ITS TOTAL NUMBER OF STORES BY REFURBISHING THOSE ACQUIRED FROM MEDIAMARKT

Increase in the number of stores in 2018, by region

1 Moscow and Moscow region



2 Centre



3 North¹



4 South



5 Urals



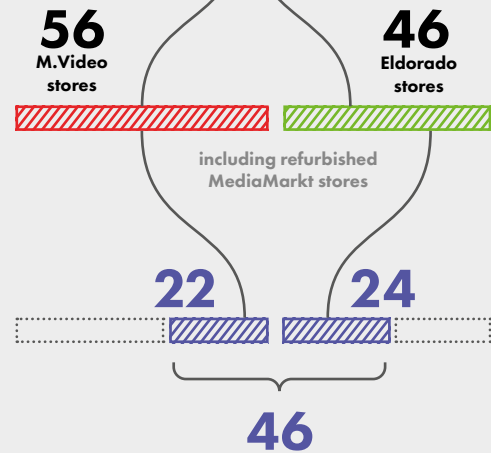
6 Siberia and Far East



- New Group stores
- Refurbished MediaMarkt stores

+102 new stores opened in 2018

of which:



¹ Including St. Petersburg.