

# THE GROUP'S STRATEGY:

## GROWTH AND DIGITALIZATION BACKED BY TWO LEADING BRANDS

### Enrique Fernandez, M.Video–Eldorado Group Chief Executive Officer



The core of our Strategy to 2022 is the transition from an omni-channel approach to the ONE RETAIL model by fully digitising the customer experience, erasing all boundaries between the retail environment and online and offline sales channels. To achieve this goal, we are taking on the challenge of building a state-of-the-art organisation based on data, introducing digital technologies into all of the company's business processes and personalising customer relations to the maximum extent possible. We are striving to digitise every point of interaction with customers and to create an opportunity for every one of our customers to create their own retail ecosystem.

'The Group's strategic development is based on the principle of one company, one business model, two brands. We are focusing on the final value of the merger of M.Video and Eldorado as a key factor in our success. This merger gives us the opportunity to realize all the advantages of our business model within a single company, drawing on two leading retail brands that together cover all customer segments – from mass market to premium.



### Alexander Tynkovan, M.Video–Eldorado Group President

Over the past few years, we have created a solid foundation for our development as a leader and a pioneer in the market under conditions of a new reality for retail based on online technologies. M.Video–Eldorado Group has become a strategic player in Russia. Therefore, our strategic priority is to implement an ecosystem approach as part of building a long-term sustainable organisation focused on our customers, employees and partners. We remember our responsibility for the ecosystem in which we operate, and we strive to use our experience and our size for positive changes in the industry and the world. We integrate our social initiatives into everything we do, combining the goals of profitable business growth and sustainable development and ensuring the creation of long-term value for all stakeholders of M.Video–Eldorado Group.





Acquisition of LLC ELDORADO in 2018 led to a profound transformation of Russia’s consumer electronics market, marking the beginning of its consolidation. As a result of the creation of the M.Video–Eldorado Group, a Russian player entered the 10 largest global publicly traded retailers in the consumer electronics segment for the first time ever. In August 2018, the Group continued consolidating the market by acquiring the Russian business of MediaMarkt.

The effective integration of the two leading brands in the market was the key strategic and management objective of the past year. To achieve this goal, the company formulated an approach based on three key principles:

- creation of a single legal entity managing the two networks;
- application of best practices based on a single M.Video business model;
- preservation and development of M.Video and Eldorado as two leading brands in the Russian market.

Our renewed Strategy to 2022, adopted in June 2018, describes the Group’s strategic objectives regarding its new market positioning and competitive advantages.

By 2022, the Group intends to deliver on the following strategic objectives:

- achieving a market share above 30%;
- maintaining a stable EBITDA margin above 6%;
- providing the best customer experience in the consumer electronics and digital equipment sector by implementing the ONE RETAIL concept.

The combined company’s initial results demonstrate the effectiveness of the chosen integration strategy. As of the end of 2018, the Group had increased sales by 18% year-on-year, with both M.Video and Eldorado outpacing the market’s growth rate and Eldorado showing record growth in like-for-like sales at 14.8%.

See 'Operating and financial performance', p. 88-91

**Strategy goals**

**>30%**  
Market share

**>6%**  
EBITDA margin

**Digital transformation and implementation of the ONE RETAIL concept**

**Strategy tools**

**Single company**

**Single operating business model**

**Business digitisation programme**

As a result of synergies between M.Video, Eldorado and MediaMarkt stores, the Group received over

**RUB 6 billion**  
in additional EBITDA in 2018

In 2019–2020, the synergy effect is expected to be

**RUB 7 billion**  
per year

## Single company

In February 2019, the Group completed the legal incorporation of the M.Video and Eldorado businesses. We carried out the centralization of key commercial functions, as well as all support functions, while maintaining two independent retail chains that were still competing.

In 2018, the Group obtained additional synergies in the amount of RUB 6 billion at the EBITDA level, achieved with Eldorado and MediaMarkt stores. In 2019–2020, the synergy effect is expected to be RUB 7 billion per year.

## Single business model

The Group's priority is to further apply to Eldorado M.Video's successful business model and best practices in the areas of inventory and product line management, as well as relations with suppliers, lessors and other counterparties.

In 2018, the Group carried out a restart of Eldorado's operating business model on the basis of a single company. In particular, Eldorado's product line was reduced through the removal of non-core categories that are not related to household appliances and electronics, the expansion of digital product offerings and a project to transition Eldorado to an omni-channel model (unifying the product line, marketing and pricing both online and offline, and website development) based on M.Video's experience. In addition, a loan broker platform was launched under Eldorado, which is analogous to the m\_credit platform operating at M.Video. As a result, Eldorado has benefited from the exchange of best practices with a competitor, which is also true for M.Video.

## Two brands

The Group is the only retailer in Russia's consumer electronics market with a portfolio that includes two leading brands. The strategy to develop the two M.Video and Eldorado brands ensures the Group's presence in all market segments and regions across Russia. Both brands are competing successfully in traditional retail and online, ensuring an expanding customer base and full realization of economies of scale.

## Two-brand strategy

For more than 25 years, M.Video grew successfully as the leading brand in the middle and premium customer segments, although its presence in the mass market segment was limited. The acquisition of Eldorado created an opportunity for the Group to achieve full geographic coverage in Russia and gain access to the widest-possible customer base, as well as to all store formats in all segments ranging from mass market to premium.

## Strategic role of the M.Video and Eldorado brands

**M.Video** is the primary brand and market leader, which sets trends and best practices. The Group will aim to maximize the brand's market presence. Profitability remains a key priority for M.Video.

**Eldorado** plays the role of an attacking, competing brand and occupies smaller markets where the M.Video brand is less competitive. Eldorado's primary objective is to secure sufficient revenue to deliver on the Group's competitive objectives. Operating efficiency is supported by tight control over operating costs.

Both brands adhere to state-of-the-art business practices by using an omni-channel business model, offering customers a seamless transition between the website and the store, as well as uniform prices, product lines and services. The Group links the future of its business with the omni-channel model's evolution into ONE RETAIL – the further integration of online and offline platforms, the personalization of offers and the development of procurement management, logistics and marketing based on data analytics and mobile technologies.

The principle of a single company allows us to maintain maximum efficiency in inventory and product line management while reducing management costs and obtaining maximum economies of scale. The Group's positioning as an even more significant player in the Russian market allowed for a decrease in the cost of purchases and leasing costs, which had a positive effect on operating expenses.

See 'Operating and financial performance', p. 88-91

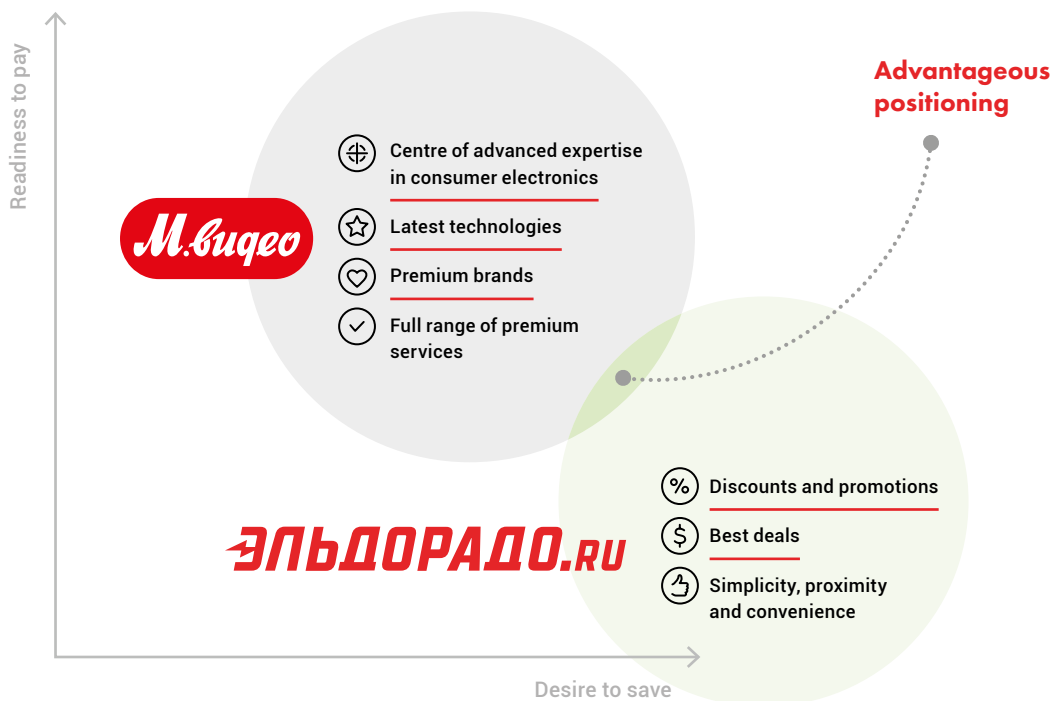


## Two-brand strategy: full market coverage and audience

	M.Video	Eldorado
<b>Target audience</b>	<ul style="list-style-type: none"> <li>• Medium and premium price segments</li> <li>• Willingness to pay for an outstanding customer experience</li> <li>• High value of technology and quality of service</li> </ul>	<ul style="list-style-type: none"> <li>• Mass market and medium price segments</li> <li>• Desire to save</li> <li>• Optimum price-to-quality ratio</li> <li>• Simplicity and proximity to the customer</li> </ul>
<b>Network and store format</b>	<ul style="list-style-type: none"> <li>• Large cities</li> <li>• First-class location, key shopping centres</li> <li>• Large stores with a premium design</li> </ul>	<ul style="list-style-type: none"> <li>• Cities with populations above 50,000</li> <li>• Class B shopping centres (or Class A next to M.Video), neighbourhood stores</li> <li>• Simple design, Eldorado 600 format</li> </ul>
<b>Average check<sup>1</sup></b>	<b>RUB 8,500</b>	<b>RUB 6,100</b>
<b>Service offer and customer loyalty</b>	<ul style="list-style-type: none"> <li>• Long-term relationships and an ecosystem approach</li> <li>• Realization of full product potential</li> <li>• Successful long-term loyalty programme</li> </ul>	<ul style="list-style-type: none"> <li>• Simple services at a base cost</li> <li>• Attractive short-term offers</li> </ul>
<b>Strategic projects</b>	<ul style="list-style-type: none"> <li>• ONE RETAIL</li> <li>• Real Time Dealing (m_RTD)</li> <li>• m_mobile</li> </ul>	<ul style="list-style-type: none"> <li>• Restarting the business model, transition to an omnichannel model</li> <li>• Customer lending</li> <li>• Eldorado 600 format</li> </ul>

<sup>1</sup> The average LFL check with VAT as of the end of 2018.

## Positioning the Group's brands



**Business development within the ONE RETAIL concept**

**ONE RETAIL –  
The result  
of the OMNI-model's  
evolution**



**+ SINGLE AUDIENCE**  
We don't divide customers by brands

**+ SINGLE SPACE**  
We don't separate online and offline

**+ DIGITISATION OF OUR BUSINESS**  
Data-based business processes

The combination of the highly recognizable M.Video and Eldorado brands in the Group's portfolio involves a detailed elaboration of the positioning and retail formats for each of the networks.

The two brands are located on opposite ends of the spectrum of consumer spending attitudes and represent both sides of consumers' approach to the use of technology. Such positioning creates maximum coverage of the market audience, with a partial overlap in the medium price segment, and ensures long-term business success. It supports a natural flow of customers from one brand to another as consumers' incomes and personal preferences grow and evolve.

**M.Video** is continuing its traditions and fulfilling its mission 'to be the best place for people and consumer electronics to come together'. M.Video focuses on state-of-the-art products and technology, leading consumer brands and services that create value and simplify customers' lives. M.Video customers look to invest in a high quality of life with the support of technology and consider the brand to be a reliable place for an advanced customer experience.

**Eldorado** concentrates on lower price segments and relatively affordable product lines. The focus on successful purchases and the best deals in specific categories 'here and now' attracts customers who attach high value to product price, as well as those who want to take advantage of state-of-the-art technologies and control their spending.

The Group is a pioneer of online retail in Russia. M.Video's first online store was opened in 2001, and the company began introducing an omni-channel business model in 2014, implementing a unified approach to the product line, pricing and services in stores and online.

At the end of 2018, the Group's online sales increased by 31% to RUB 77.3 billion, and the share of online sales out of total turnover reached 18% (it was more than 20% in Moscow and St. Petersburg).

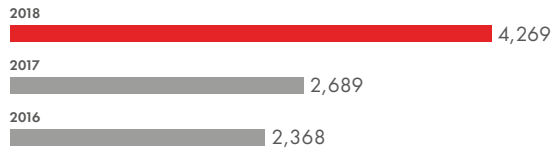
The ONE RETAIL concept represents the next step in the digital transformation of our business, which aims to create a unified experience for purchasing consumer electronics at all points of contact between the Group and the customer – on the website, on the mobile app and in stores – with the most personalized service.

The boundaries between traditional retail and online sales are disappearing. Approximately 65% of the Group's customers use the [www.mvideo.ru](http://www.mvideo.ru) and [www.eldorado.ru](http://www.eldorado.ru) platforms in one way or another when making purchases (learning about products, obtaining other information and placing orders). Online customers, in turn, are becoming more mobile by using devices to shop 24/7 at home, at work, while commuting or directly at store shelves where products are kept. The ONE RETAIL concept is designed to strengthen the Group's leadership in today's new reality where e-commerce is at the forefront. With this strategy, M.Video is the pioneer in implementing the ONE RETAIL concept, and Eldorado continues to strengthen its position as an omni-channel company.

The Group has identified three key elements of the ONE RETAIL concept:

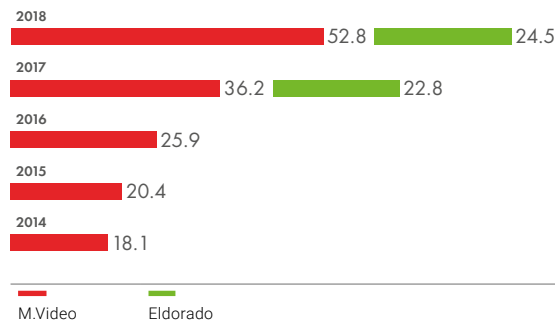
- Single space: creating a unified retail environment that provides full-format service regardless of the sales channel or means of communication
- Single audience: treating customers as a single audience, regardless of the sales channel, throughout the entire interaction cycle – from initial contact to sales and after-sales service
- Business digitisation: digital transformation of both the front and back office, which aims to grow revenue and optimize internal processes in order to reduce operating costs

### The Group's investments in IT and online business development<sup>1</sup>, RUB million



<sup>1</sup> Before 2018, the figure includes only M.Video results.

### Online sales of the M.Video–Eldorado Group, 2014–2018, RUB billion



### Front-office digitisation

Our priority is to create a better and more consistent customer experience across all sales channels. In 2017, M.Video launched the m\_RTD project, whereby sales staff in stores began serving customers using smartphones and tablets equipped with software in order to significantly increase the personalization of service.

[See 'Customer experience', p. 58](#)

The m\_RTD project has led to a significant increase in the number of regular customers at M.Video and sales conversion, which allows us to offer customers a **quality of service that is unique in the Russian market**. At the end of 2018, 475 M.Video stores (99%) were connected to the m\_RTD platform.

In 2019–2021, M.Video's key projects in the digitisation of customer interaction will be the introduction of an advanced mobile app as a new sales and communication channel, an upgrade of the CRM system and the Customer 360 project, which foresees the creation of a single customer vision in all sales channels.

Customisation of service is an important element of the ONE RETAIL concept. In this regard, M.Video aims to centralize all necessary data about customers in order to offer them individually selected products and services at all stages of their contact with us as a seller.

The customer experience of the future will allow people to visit our stores, where sales staff will be waiting to quickly complete product selection and purchases that take into account individual offers generated online.

The Group intends to introduce m\_RTD technologies to the Eldorado network that account for the specific positioning of this brand, launch a mobile app for customers and continue improving the website and other elements of the front office.

### Digitisation of back-office processes

The Group plans to carry out the following initiatives in order to optimize internal processes:

- Development of transaction support processes, including the introduction of advanced automation tools and the use of robots;
- Implementation of a programme to develop the introduction of data analysis and machine learning technologies, smart services based on predictive algorithms, etc.;
- Introduction of a digital workplace – an approach and technology that support employee mobility and the availability of IT services in any place and on any device;
- Automation of planning and budgeting processes.

### Focus on digital products: the m\_mobile project

A strategic priority for the Group is to increase the share of high-margin digital products in total sales in line with market trends. Key projects in this area have involved expanding this category of products in the Eldorado product matrix, where large household appliances

### Forecast for development of the retail network until 2022, stores

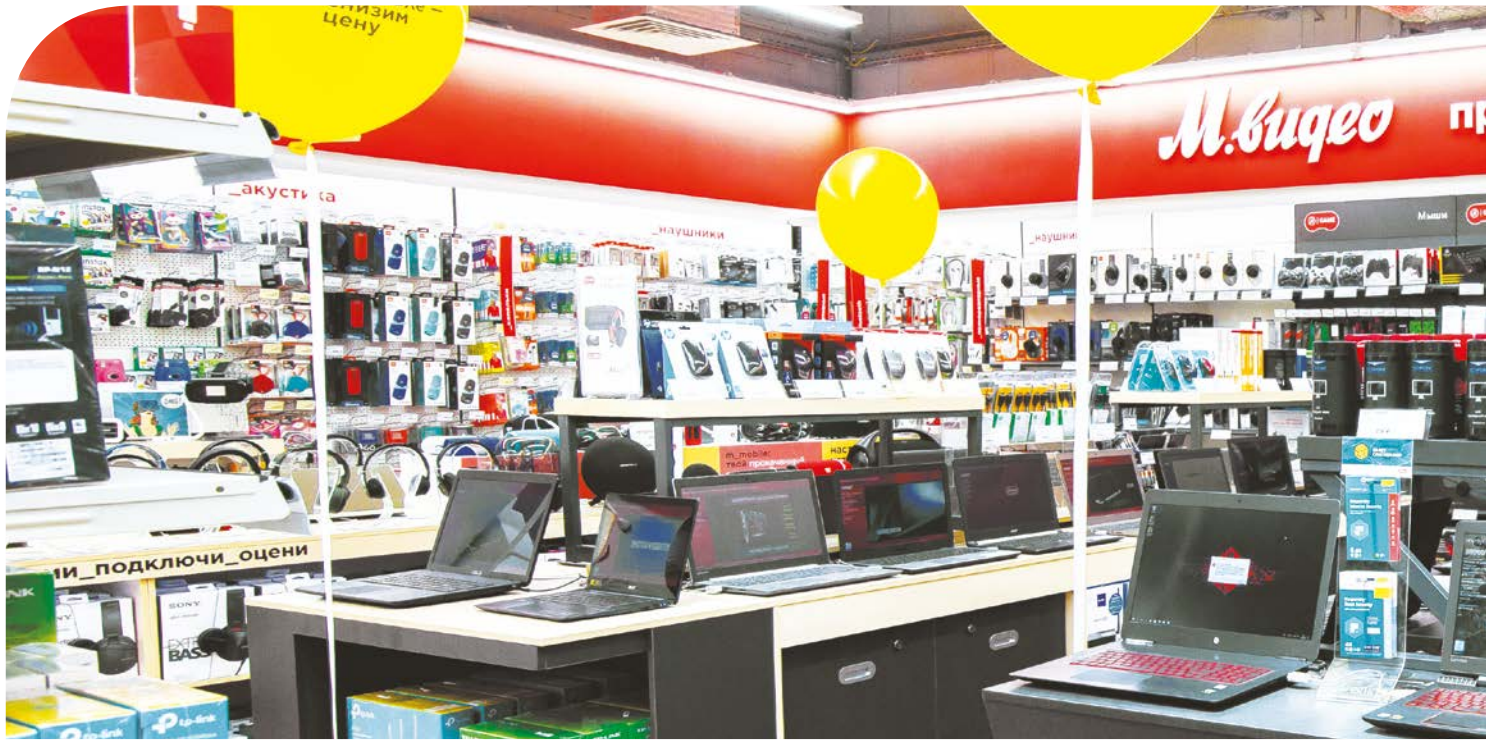


are traditionally widely represented, as well as developing digital zones and stores under the m\_mobile brand.

M\_mobile is designed for consumers of high-tech gadgets and aims to provide a unique service that will emphasize M.Video's leadership in the mobile device and smart consumer electronics categories. In February 2018, the Group opened its first stand-alone m\_mobile store in Moscow in the Afimall City shopping and entertainment centre. As it continues to deliver on this strategy, the Group plans to open up to 150 m\_mobile stores in Russia (five stores were opened in 2018). The new m\_mobile outlets will be located in high-end, high-traffic locations and will be managed cross-functionally under the M.Video business structure.

### Network expansion strategy

The M.Video–Eldorado Group believes that its extensive retail network is a key competitive advantage in building a business based on the ONE RETAIL strategy. The Group is focused exclusively on the Russian consumer electronics market and aims to offer its services both online and in traditional stores throughout Russia. Moreover, the Russian Far East is one of the key development zones of the retail network for both the M.Video and Eldorado brands. By the end of 2022, the Group plans to expand its retail network to more than 1,100 stores, compared with 941 at the end of 2018.

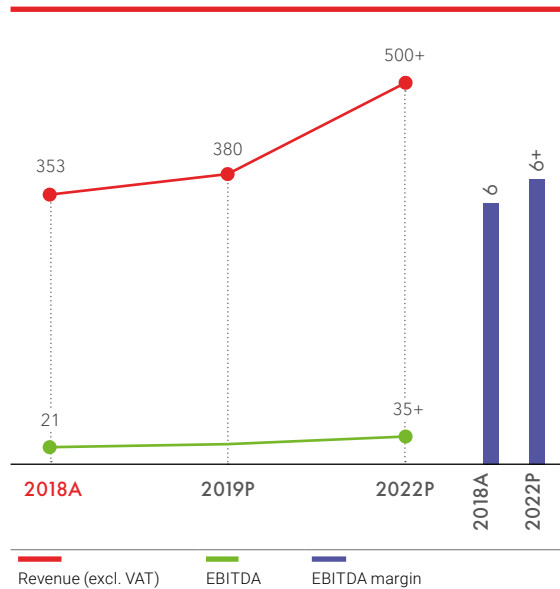


**Target financial performance**

The M.Video–Eldorado Group expects that its strong market position and the implementation of key strategic initiatives will support average annual revenue growth to 2022 of more than 7%, against an average annual growth forecast for the consumer electronics market of 5%. The Group’s target revenue in 2022 is more than RUB 500 billion compared to RUB 321.1 billion for 2018. The increase in the Group’s market share is expected to occur against the backdrop of further market consolidation due to the weakening position of small retailers and the contraction of the so-called shadow market segment.

As of the end of 2018, the Group demonstrated a record EBITDA margin of 6.0% (pro forma), which is one of the best results among global retailers of home appliances and electronics. The synergies from the integration of Eldorado and MediaMarkt stores were an important factor in EBITDA margin growth. The Group estimates that the impact of these synergies on EBITDA in 2018 was approximately RUB 6 billion (compared to the pro forma basis of 2017); in 2019 and 2020, this is expected to be RUB 7 billion per year.

**Target revenue and EBITDA until 2022<sup>1</sup>, RUB billion**



<sup>1</sup> Revenue and EBITDA for 2018 are pro forma indicators.





In particular, the EBITDA margin of MediaMarkt stores after rebranding in the M.Video and Eldorado networks is expected to increase by more than tenfold to above 9%.

See 'Mergers and acquisitions', p. 26-29



Along with the increase in revenue and control over operating expenses, this synergy effect will provide an average annual EBITDA growth rate of over 13%.

The Group's target EBITDA for 2022 is more than RUB 35 billion compared to RUB 20.8 billion for 2018. As part of its strategy, the Group intends to maintain an EBITDA margin of more than 6%.

The Group continues to follow a conservative debt portfolio management strategy. At the end of 2018, the ratio of net debt to EBITDA for the Group was 1.6x. Under the current debt repayment schedule, the Group expects the continued consistent reduction of its debt burden.

**The Group's target revenue in 2022 is more than**

**RUB 500 billion**

**The Group's target EBITDA for 2022 is more than**

**RUB 35 billion**