CECONOMY signs Russian deal with M.video/Safmar and pushes portfolio optimization and consolidation

MediaMarktSaturn acquires a strategic stake of 15% in M.video, the leading Russian Consumer Electronics retailer, and will transfer its loss-making Russian business to Safmar, M.video’s controlling shareholder.

The purchase price amounts to €258 million, subject to further customary adjustments.

M.video is committed to join the European Retail Alliance.

Transaction eliminates operational losses of MediaMarkt Russia, ensures continued participation in one of the fastest growing CE markets in Europe and marks a next significant step in the consolidation of the Consumer Electronics industry.

Technical adjustment of CECONOMY’s outlook for financial year 2017/18 as a result of the transfer and deconsolidation of the Russian business.

Dusseldorf, 20 June 2018 – CECONOMY AG’s (“CECONOMY”) majority shareholding Media-Saturn-Holding GmbH (“MediaMarktSaturn”), has signed a share purchase agreement to acquire a 15% stake in Russia’s leading Consumer Electronics retailer PJSC M.video (“M.video”) from a company of Safmar Group (“Safmar”).

The purchase price amounts to €258 million (based on current exchange rates) in addition to the transfer of the entire Russian business of MediaMarktSaturn to Safmar. M.video is committed to join the European Retail Alliance and to become the third member next to MediaMarktSaturn and Fnac Darty. Subject to M.video’s EBITDA performance compared to agreed targets in the years 2018 and 2019, the purchase price may be reduced by an amount of up to €86m. The purchase price would be subject to further adjustment mechanisms which might result in an increase or reduction of the purchase price. Furthermore, the overall transaction remains subject to certain customary conditions such as regulatory approvals. The closing is expected by September 2018.

MediaMarktSaturn will finance the transaction with existing cash. To maintain the flexibility for further strategic actions and to strengthen its balance sheet, CECONOMY considers to raise its
share capital by up to 10%. A final decision on this will be taken at a later point in time.

“We are further expanding our pan-European relevance via strategic partnerships and consolidation. Through this new set-up of our Russian activities we are also taking a big step in solving our portfolio topics and optimizing our presence in Russia. Following the closure of redcoon and the turnaround of MediaMarkt Turkey, this transaction means that, from next year, we will turn losses into profits by disposing of the sub-scale MediaMarkt Russia business, whilst remaining present in the large and fast growing Russian Consumer Electronics market through our strategic stake in the market leader M.video. Likewise, M.video is committed to join us, by becoming the third member of the European Retail Alliance. The Alliance will then represent the largest CE volume worldwide with close to €34 billion of combined company sales”, said Pieter Haas, CEO of CECONOMY.

CECONOMY believes that the agreement with M.video/Safmar will create significant long-term value for the company and its shareholders. In the current financial year, however, it will lead to negative effects on CECONOMY’s consolidated financial accounts. Based on current estimates, CECONOMY will incur a negative one-time impact of around €-250 million on its net income.

**Technical adjustments to CECONOMY’s earnings outlook for financial year 2017/18**

The deconsolidation of the loss-making Russian business leads to adjustments with regards to CECONOMY’s earnings outlook (excluding the earnings contributions from the investment in Fnac Darty S.A.) for the current financial year 2017/18. In particular, the comparable figures for fiscal year 2016/17 increase from €704 million to €717 million (EBITDA) and from €471 million to €498 million (EBIT). CECONOMY now expects an increase in both EBITDA and EBIT in the low to mid-single digit percentage range on this higher base.

“After a thorough analysis of all our strategic alternatives, we have concluded that this transaction is the optimal way for us to remain active in a fast-growing country like Russia whilst reducing the risks to our balance sheet and eliminating losses. Not only will the deal lead to an immediate improvement in our profitability, but it will also underscore the broader benefits of implementing our strategic agenda to facilitate the consolidation of the European Consumer Electronics market”, said Mark Frese, CFO of CECONOMY.

**About MediaMarkt Russia and M.video/Safmar**

MediaMarktSaturn started its activities in Russia in 2006. As of March 2018, it operated 46 MediaMarkt stores, 90 Shop-in-Shops in METRO Cash & Carry stores and the national online platforms MediaMarkt and 003.RU. In fiscal year 2016/17, MediaMarkt Russia generated sales of €526 million, equating to an estimated share of the market of around 3%.

Over the past years, the Russian business of MediaMarkt has faced significant pressure on top-line and margins. Reasons for this include the Group’s sub-scale positioning and strong national competition. As a result, MediaMarktSaturn initiated a restructuring program in 2017, which has led to an improvement of earnings in the first six months of this financial year 2017/18. However,
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MediaMarkt Russia still lacks a leading position and is likely to remain sub-scale given the current competitive landscape led by M.video.

Safmar is currently establishing a national market leader by combining M.video and the Russian competitor Eldorado. The combined company has a market share of c. 26%. At the end of 2017, M.video and Eldorado operated 839 stores in Russia. Excluding MediaMarktSaturn’s Russian retail operations, revenue of M.video (including Eldorado) is expected to reach over RUB 450 billion (c. €6.2 billion) in 2022. The combined entity targets an EBITDA margin of more than 6% in 2022.

Russia is a sizeable Consumer Electronics market, representing approximately 10% of the total European Consumer Electronics market. Growth is fueled both in the bricks and mortar channel as well as in the online segment with the latter being the main driver for the strong momentum. The current market landscape offers room for further growth, which puts the market leader M.video (including Eldorado) in a strong position and may also lead to further potential for CECONOMY.

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About CECONOMY

CECONOMY AG is the leading platform for companies, concepts and brands in the field of consumer electronics in Europe. This market position of CECONOMY is based above all on the strong brands MediaMarkt and Saturn. With more than two billion customer contacts per year the CECONOMY companies are to provide consumers with orientation and solutions, thus allowing consumers to make optimum use of the possibilities of innovative technologies. To this end CECONOMY intends to develop new concepts and business models which provide consumers with vital added value and which tap the potential for the economic success of the Company and its shareholders.
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