



THE BOSTON CONSULTING GROUP

Belarusian Grocery Retail Market

July 2018



Agenda



Belarusian Economy
Grocery retail market
Logistics overview
Regulation in grocery retail
Belarusian consumer
Grocery e-commerce
Barriers to market entry
Key players profiles

Belarusian Economy: Overview and Outlook



Executive summary



Overview

Belarus is a mid-size developing country in Eastern Europe with strong links to neighbors and the EU via foreign trade. GDP dynamics affected by exchange rate volatility & commodity price fluctuations



Economy

Before 2016

In recent years, the Belarusian economy has been through a number of crises

- 2009: systemic problems in the world economy
- 2011: currency crisis in Belarus - devaluation by 64% followed by balance of payments crisis
- 2015-2016: oil prices plummet, crisis leading to currency devaluation and redenomination of the Belarusian ruble

2016-2017

However, the economy has been picking up since 2016 and a basis for growth established

- Tight monetary and fiscal policies helped to reduce inflation
- Refinancing rate cut from 24% to 11% within 2 years
- Subsequent increase in public investment and GDP growth recovery

2018-2022

Economic forecasts are cautiously optimistic:

- 2-3% real GDP and GDP/capita growth
- 3% real wage growth
- YOY CPI stabilization at 107
- Refinancing rate continues downward trend: 10,5% in 1Q2018

Cyclical factors to track are commodity prices, currency volatility, and performance of trading partners

Results of Q1 2018 exceed forecasts: real GDP growth at 5.1%, optimistic scenario likely



Regions









Belarus consists of 7 administrative units - Minsk city and 6 regions: Minsk, Grodno, Gomel, Vitebsk, Mogilev and Brest. The regions have different industrial specializations, most often machinery, food processing, and petrochemical. Minsk and Minsk region contribute ~50% of Belarus GDP and have the highest wages; otherwise GDP and wages are evenly distributed among the remaining regions



Retail market

The outlook is positive for the development of grocery retail. Worldwide GDP - retail curve suggests growth from 22B (\$11.4B) to 34-36B BYN (\$14-14.8B) in 2022 following forecasted GDP growth. Low downside risk in food retail as demand would largely remain unaffected even in the event of an unexpected economic shock

Belarus at a glance 2017: a developing country in Eastern Europe

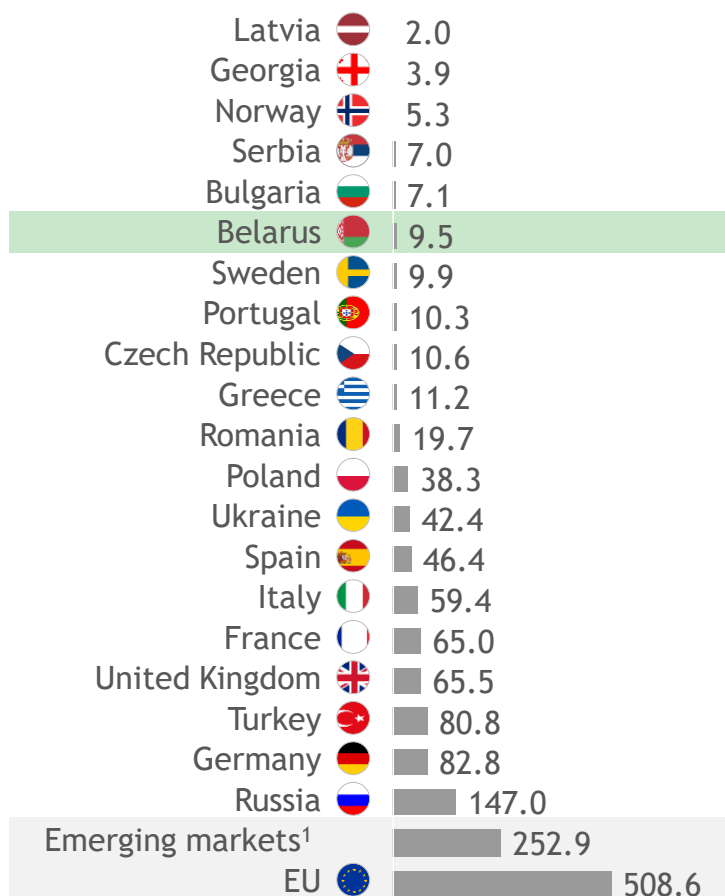
Population	9.5M	GDP nominal	105B BYN / \$ 55B
Nationalities	84% Belarusian 8% Russian 8% Other	GDP/capita nominal	\$ 5,737
Religion	48% Orthodox 7% Catholic 4% Other 41% Non-believers	GDP real	144B PPP US\$ at 2005 prices
Life expectancy	73 years	Key economic sectors	 Petrochemical  Machinery  Chemicals  Food processing  Metals & mining  Agriculture  IT
Median age	40 years	Doing business rank ¹	38 out of 190
Currency	Belarusian Ruble (BYN)	President	 Alexander Lukashenko
Area	208K km ²	Membership in international organizations	United Nations CIS Eurasian Economic Union ²
Capital	Minsk		

1. World Bank Doing Business Report 2018; 2. Russia, Kazakhstan, Armenia, Kyrgyzstan, Belarus
Source: CIA; World Bank

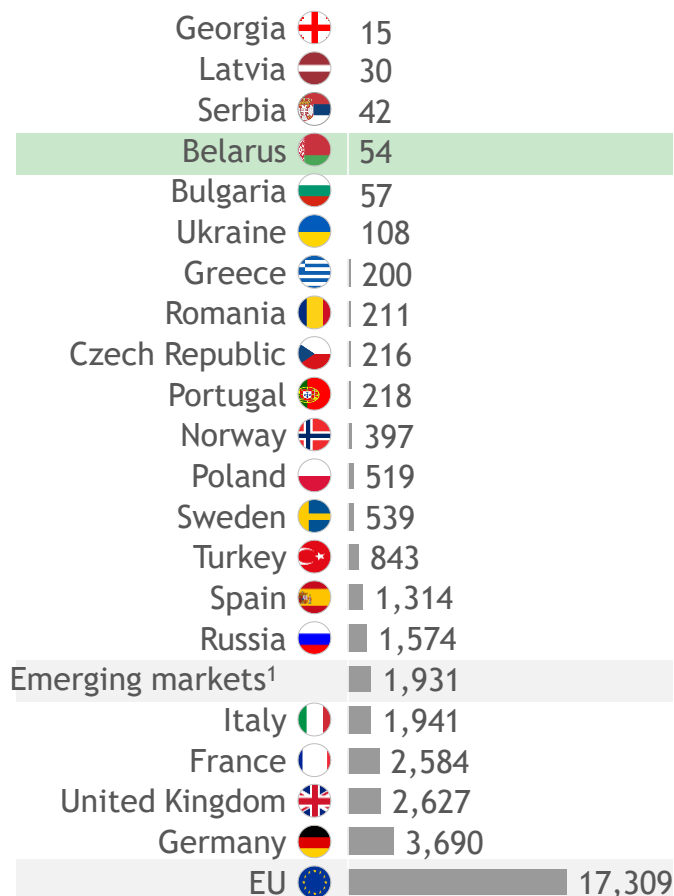


Belarus is a mid-size European country with potential to grow its economy to emerging the markets level

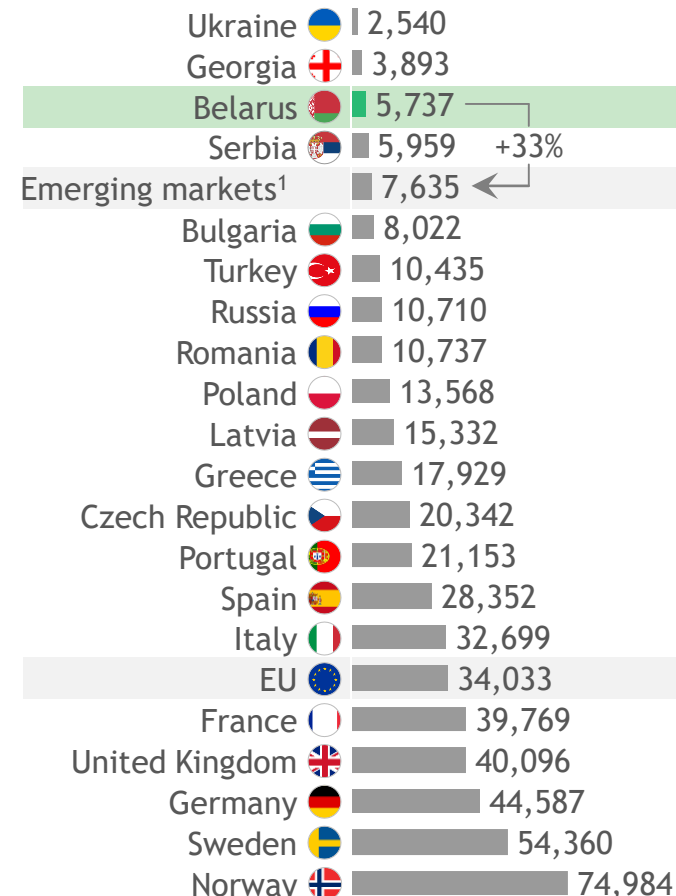
Population 2017, M



Nominal GDP 2017, \$B

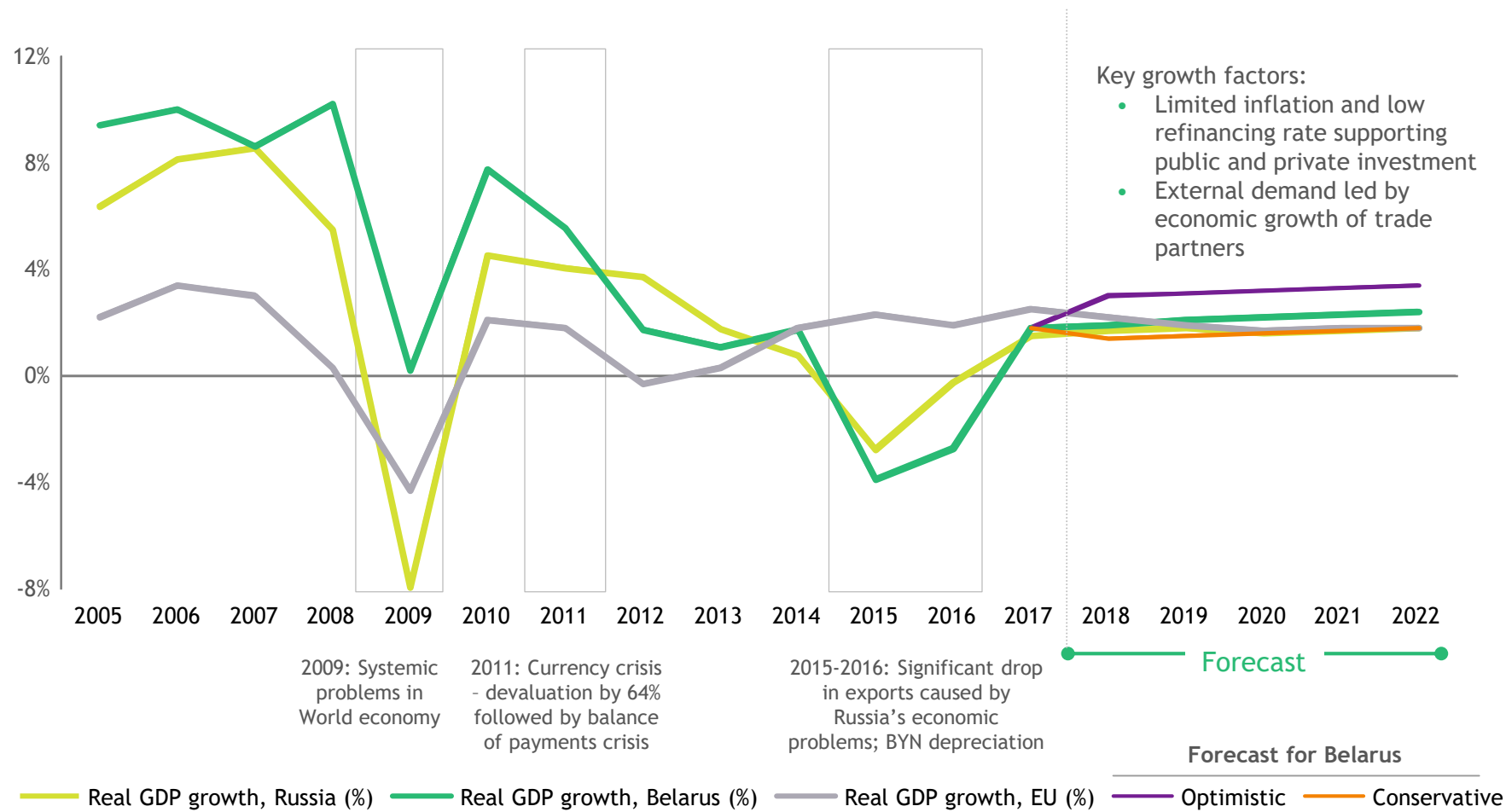


Nominal GDP per capita 2017, \$



1. Emerging markets include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan
Source: The Economist Intelligence Unit, Belarus National Statistical Committee and National Bank of the Republic of Belarus for Belarus

The performance of the Belarusian economy is on par with the economic development of neighboring countries



3 scenarios for GDP growth 2017-2022

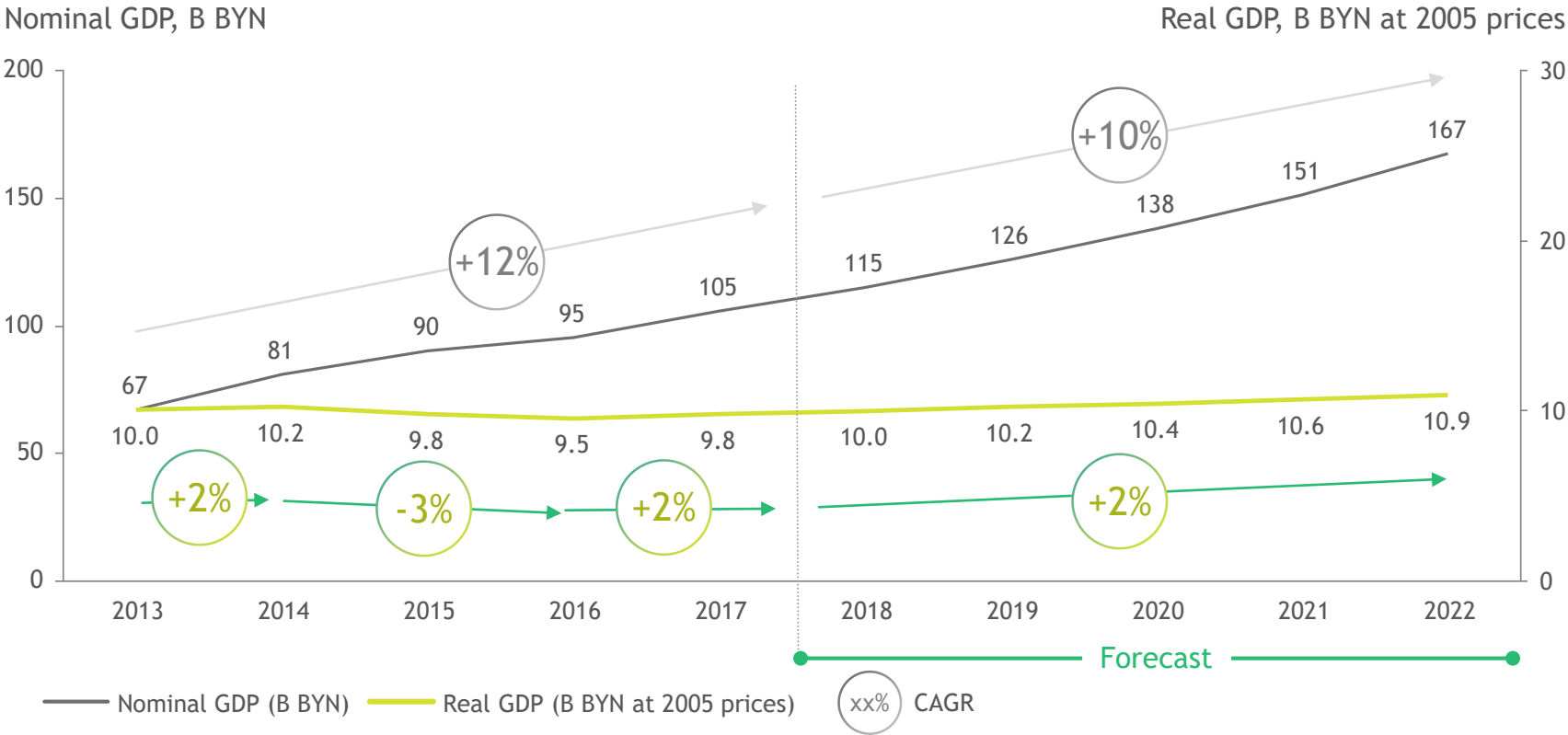
	Conservative	Basic	Optimistic
2017		1.8%	
2018	1.4%	1.9%	3.0%
2019	1.5%	2.1%	3.1%
2020	1.6%	2.2%	3.2%
2021	1.7%	2.3%	3.3%
2022	1.8%	2.4%	3.4%

5.1%

Actual GDP growth in Q1 '18 vs 1.6% forecasted - optimistic scenario likely

Note: Optimistic and conservative forecast for Belarus 2020-2022 based on basic forecast 2020-2022 and corresponding 2018-2019 forecast from Focus Economics
Source: Economist Intelligence Unit for EU and Russia; Belarus National Statistical Committee for actual Belarus data; Basic forecast for 2018-2022, and other Belarus forecasts 2018-2019 from Focus Economics (Panelists: Barclays Capital, BMI Research, EIU, Euromonitor, Frontier Strategy Group, JPMorgan, KUKA S.A., Oxford Economics, Raiffeisen Research, Renaissance Capital, WIIW) plus forecast from Eurasian Development Bank and World Bank; BCG analysis

Real GDP started recovery in 2017 and is set to grow, basic consensus forecast moderately positive for Belarus



Source: Actual data from Belarus National Statistical Committee and EIU; Forecast from Focus Economics (Panelists: Barclays Capital, BMI Research, EIU, Euromonitor, Frontier Strategy Group, JPMorgan, KUKE S.A., Oxford Economics, Raiffeisen Research, Renaissance Capital, WIIW), Eurasian Development Bank, World Bank; BCG analysis

2013-2014
stabilization of economy following 2011 currency crisis

2015-2016
Oil prices plummet, crisis lead to devaluation and redenomination of the Belarusian ruble

2017-2018
Stabilization of the Belarusian economy prompted by investment-encouraging reforms

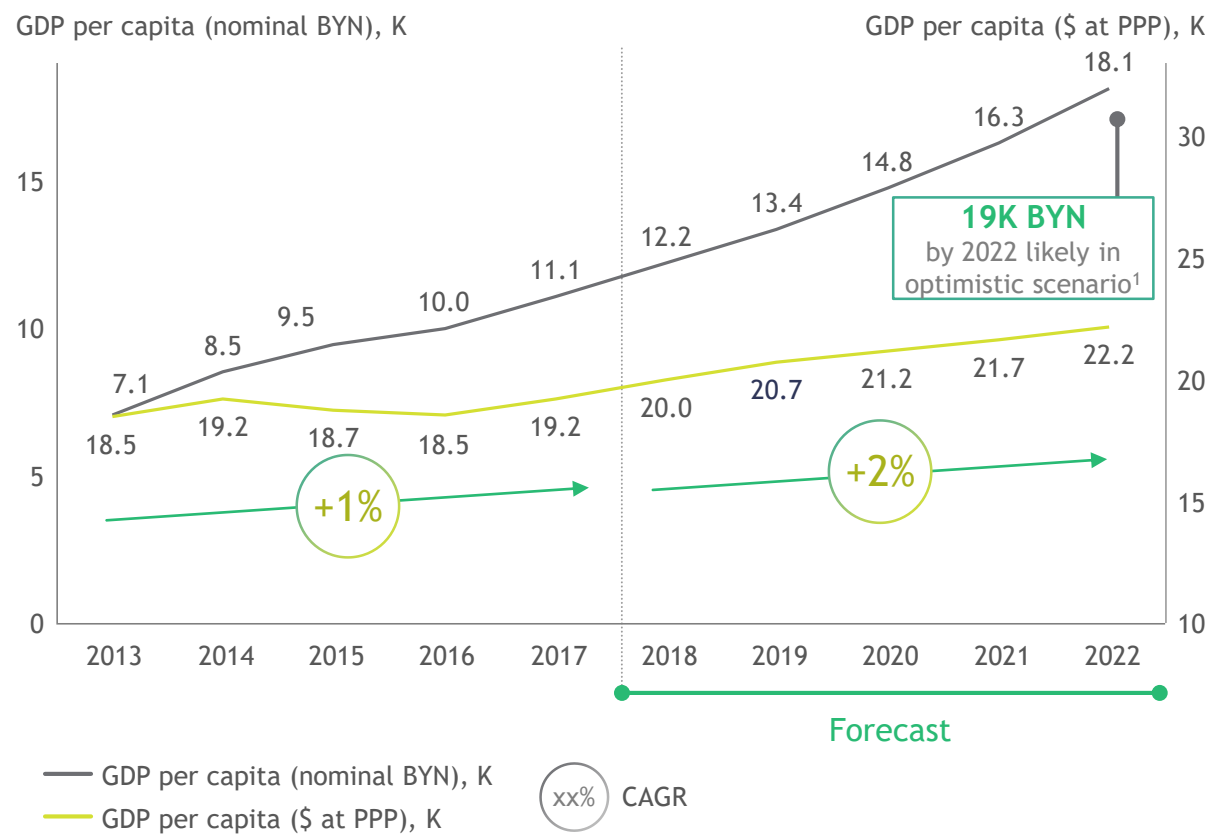
Economy expected to pick up in **2019** based on healthy consumption and trade, but dependence on trading partners Russia and EU remains a risk

Optimistic scenario likely

176B BYN Nominal GDP 2022

11.4B BYN Real GDP 2022

GDP PPP is on average emerging markets level & expected to further accelerate



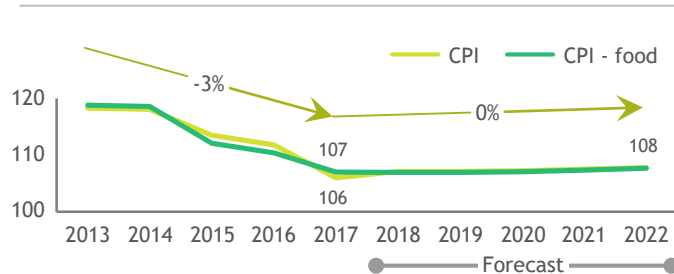
Country	2017 GDP PPP per capita, \$	2017 Nominal GDP per capita, \$
Ukraine	8,650	2,540
Georgia	10,148	3,893
Serbia	15,340	5,959
Belarus	19,220	5,737
Emerg. markets ²	19,690	7,635
Latvia	20,120	15,332
Bulgaria	20,409	8,022
Romania	25,140	10,737
Russia	25,490	10,710
Greece	26,727	17,929
Turkey	27,010	10,435
Poland	28,950	13,568
Portugal	32,158	21,153
Czech Republic	36,760	20,342
Spain	38,270	28,352
Italy	40,660	32,699
EU	41,600	34,033
France	44,130	39,769
UK	44,219	40,096
Germany	50,743	44,587
Sweden	50,911	54,360
Norway	60,250	74,984

1. The World Bank Belarus economic update on 19 April 2018. 2. Emerging markets include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan

Source: Actual data from Belarus National Statistical Committee and EIU; Forecast based on Focus Economics and EIU; BCG analysis

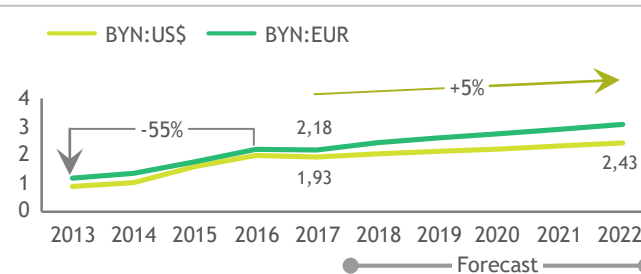
Positive outlook for the future: CPI and currency rate stabilizing, wages growing, population moving to cities, unemployment remains low

CPI (YOY)



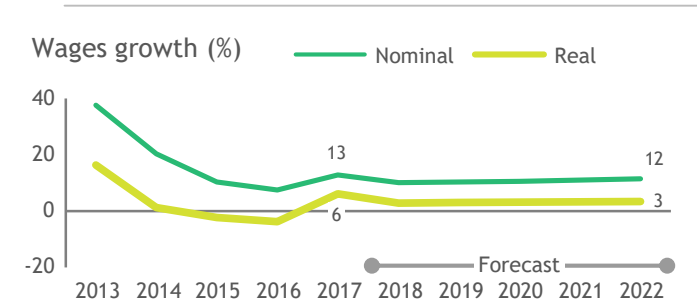
- CPI stabilized at single digits in 2017 due to export recovery and tight wage control
- Expected to remain at 107-108 for 2018-2022

Currency/Exchange rate (average)



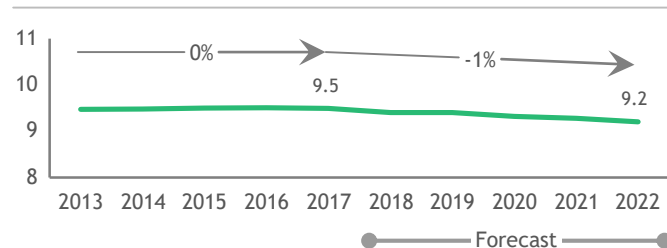
- BYN exchange rate determined by trade volumes on the Belarusian Currency and Stock exchange from '15
- 2013-2016 BYN depreciated at 21% vs \$US / year
- Slow depreciation expected

Wages (YOY)



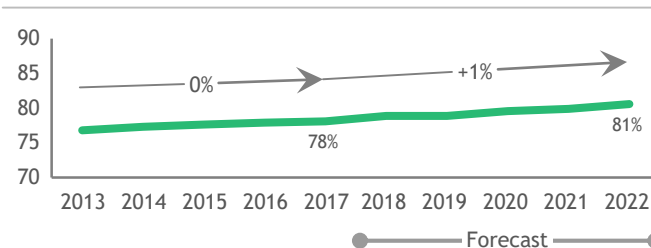
- Nominal wages grow in line with nominal GDP
- Further nominal wage growth of 10% and real wage of 3% expected

Population, M (end of period)



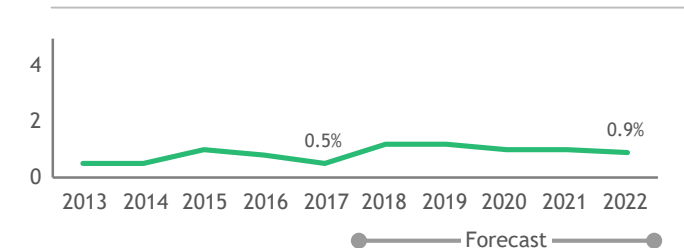
- Population is stable but expected to slightly decline in 2018-2022
- Decline driven by aging population, which is not compensated by migration inflow

Urbanization rate, % (end of period)



- Urbanization rate is already at 78%, but expected to exceed 80% by 2022
- Growth is driven by biggest cities attracting young people looking for education opportunities

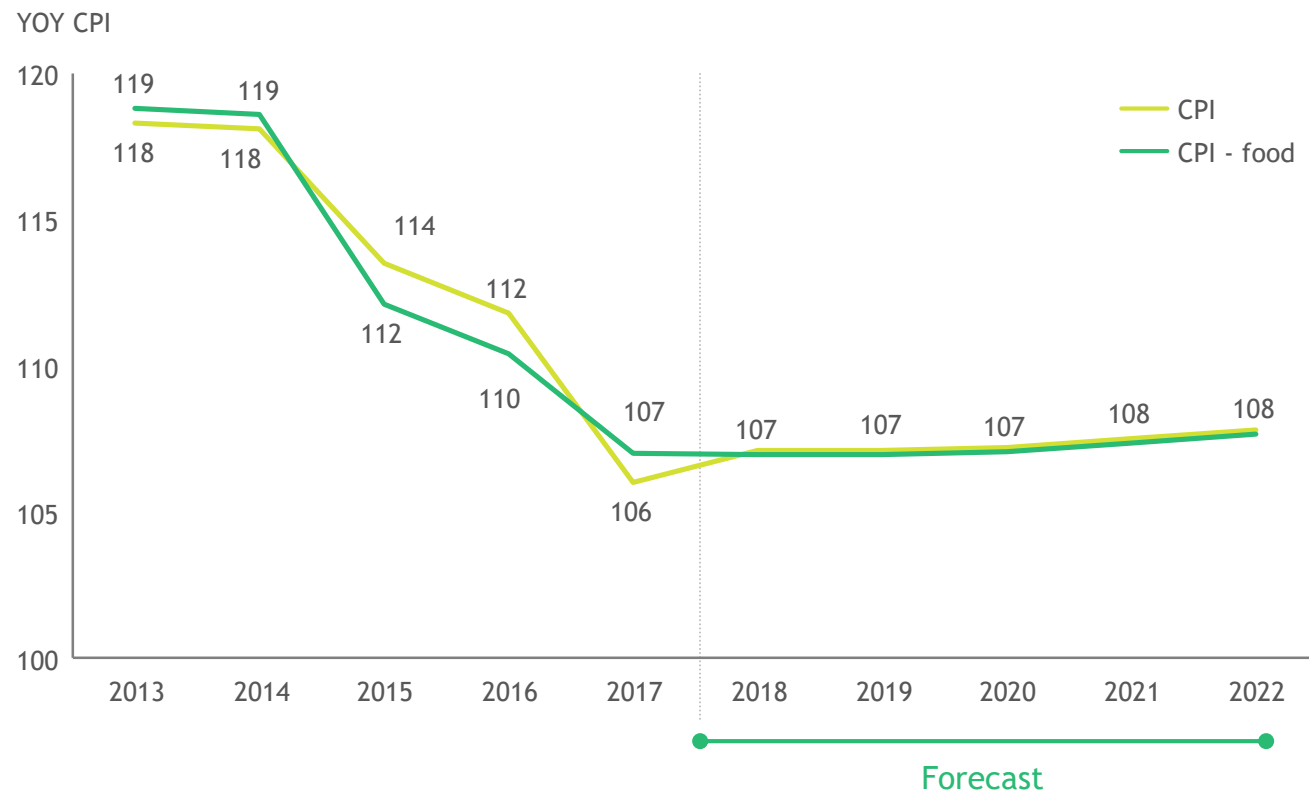
Unemployment rate, % (end of period)



- Unemployment rate in Belarus is kept low (under 1%) by government measures
- Decree #3 from April 2015 requires unemployed individuals of working age pay tax of \$200-300 equivalent per year depending on x-rate¹

1. Decree suspended in 2018, to be replaced with requirement for unemployed individuals of working age to pay full cost of government subsidized tariffs
Source: Belarus National Statistical Committee, EIU, Focus Economics, Trading Economics, BCG analysis

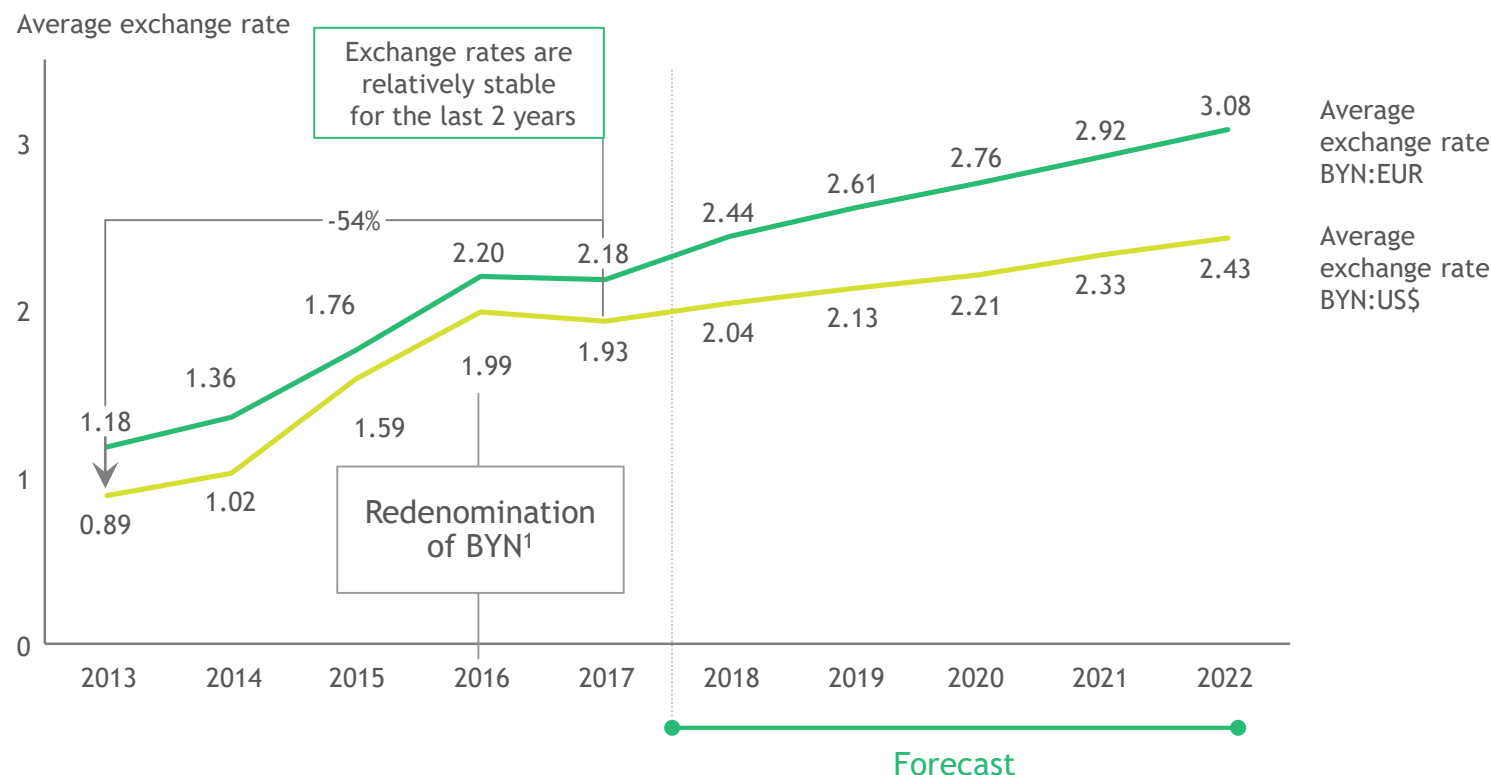
YOY CPI stabilized at single digits in 2017 due to export recovery and tight wage control and is expected to remain at that level



Country	CPI 2017
Greece	101.1
France	101.2
Italy	101.3
Romania	101.3
Portugal	101.6
Germany	101.7
EU	101.7
Sweden	101.8
Norway	101.9
Poland	102
Spain	102
Bulgaria	102.1
Czech Republic	102.5
United Kingdom	102.6
Latvia	102.9
Serbia	103.2
Russia	103.7
Emerging markets ¹	105.8
Georgia	106.0
Belarus	106.1
Turkey	111.1
Ukraine	114.4

1. Emerging markets include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan
 Note: CPI food forecast based on average CPI : food CPI ratio 2013-2017
 Source: Actual data from Belarus National Statistical Committee and EIU; Forecast from Focus Economics; EABR; BCG analysis

Belarus' average currency exchange rate was stabilize in 2016-17, expected to keep a slow depreciation rate



1. Redenomination on 1 July 2016 wiped four zeroes off the Belarus ruble 2. As of 01.10.2016, the value of the currency basket has been calculated as the geometric weighted average of bilateral rates of the Belarusian ruble (BYN) against the USD, EUR and RUB for 1 unit of foreign currency with weights 0.3, 0.2 and 0.5, respectively (i.e. multiplication of exchange rates: BYN/USD raised to the power of 0.3, BYN/EUR raised to the power of 0.2 and BYN/RUB raised to the power of 0.5).

Note: all prices are in redenomination equivalents; all exchange rates are annual averages

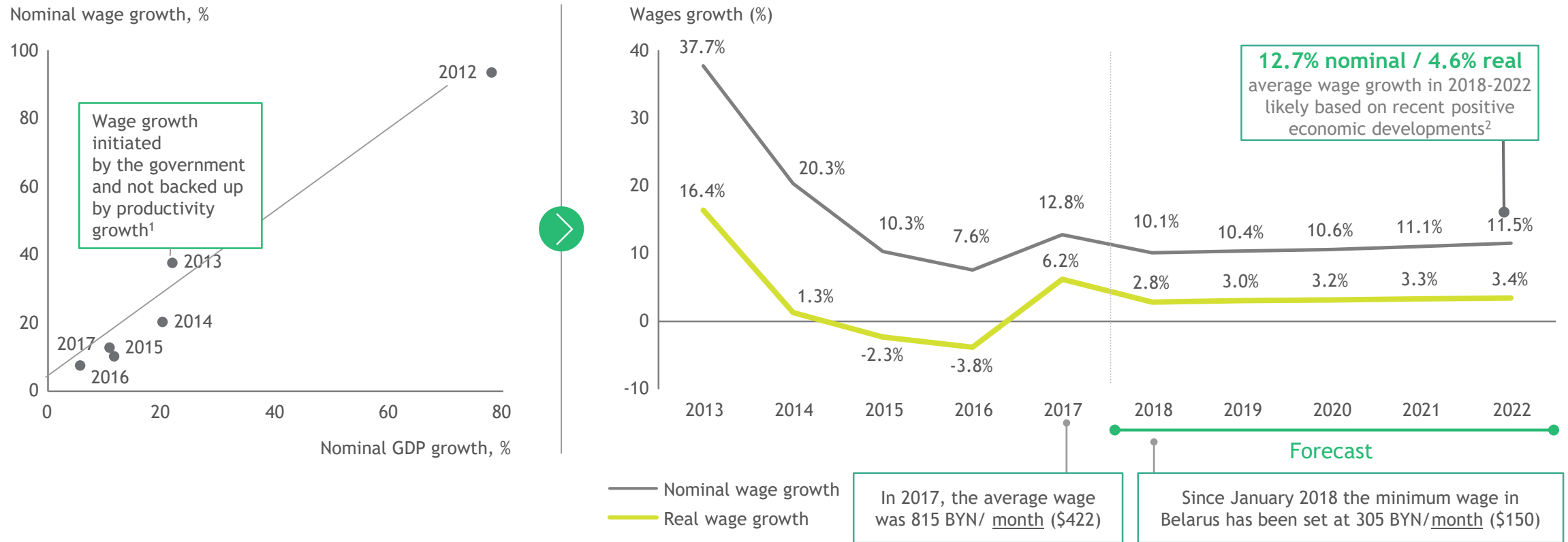
Source: EIU; Belarus National Statistical Committee; Focus Economics forecasts; BCG analysis

Before 2011, the exchange rate was determined by the National Bank of Belarus based on a basket of USD, EUR and RUB

Since 2011, the National Bank of Belarus has determined the BYN exchange rate based on accumulated requests for currency sale / purchase on the Belarusian Currency and Stock Exchange

Since 2015, the exchange rate has been set based on daily trade results on the Belarusian Currency and Stock Exchange²

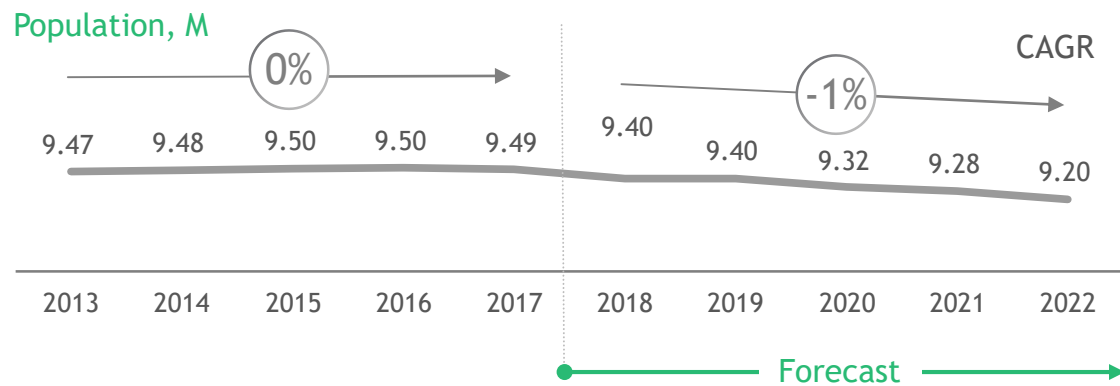
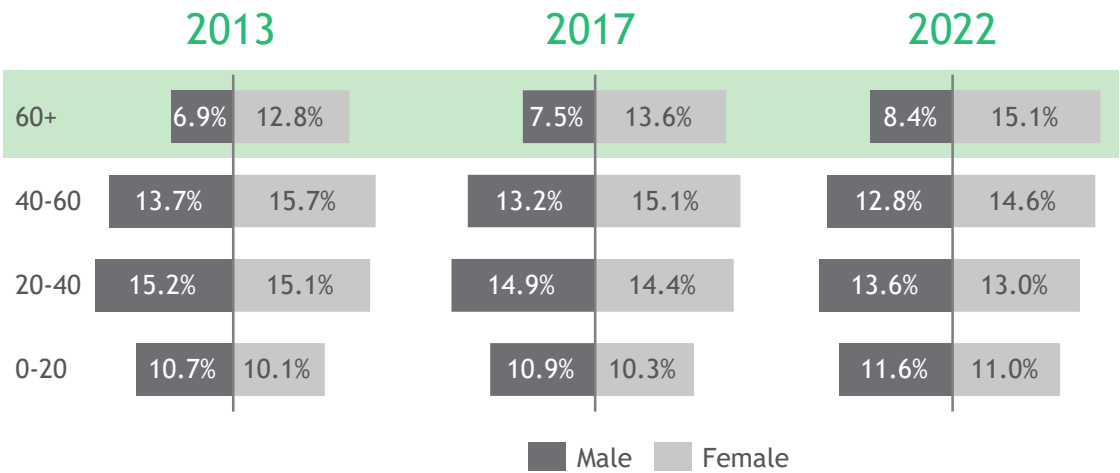
Nominal wages moved up and are expected to move in line with GDP



1. Led by a top-down directive from the government to increase average wages to \$500 per month. 2. The World Bank Belarus economic update on 19 April 2018
 Note: Nominal wage growth 2018-2022 forecasted as nominal GDP growth 2018-2022 adjusted by a wage/GDP coefficient calculated as an average of 2014-2017;
 real wage growth calculation based on nominal growth forecast and CPI forecast; BYN:USD exchange rate used - yearly average 1.93 for 2017, 2.04 for 2018
 Source: Belarus National Statistical Committee; National Bank of the Republic of Belarus; BCG analysis

Belarus' population stable but expected to steadily decline as birth rates are too low to sustain the population level

Share of population by age group



Key factors affecting population

- ↑ Growing life expectancy
- ↑ Positive (but low) migration balance
- ↓ Birth rate below equilibrium (1.72/ woman vs 2.15 target)

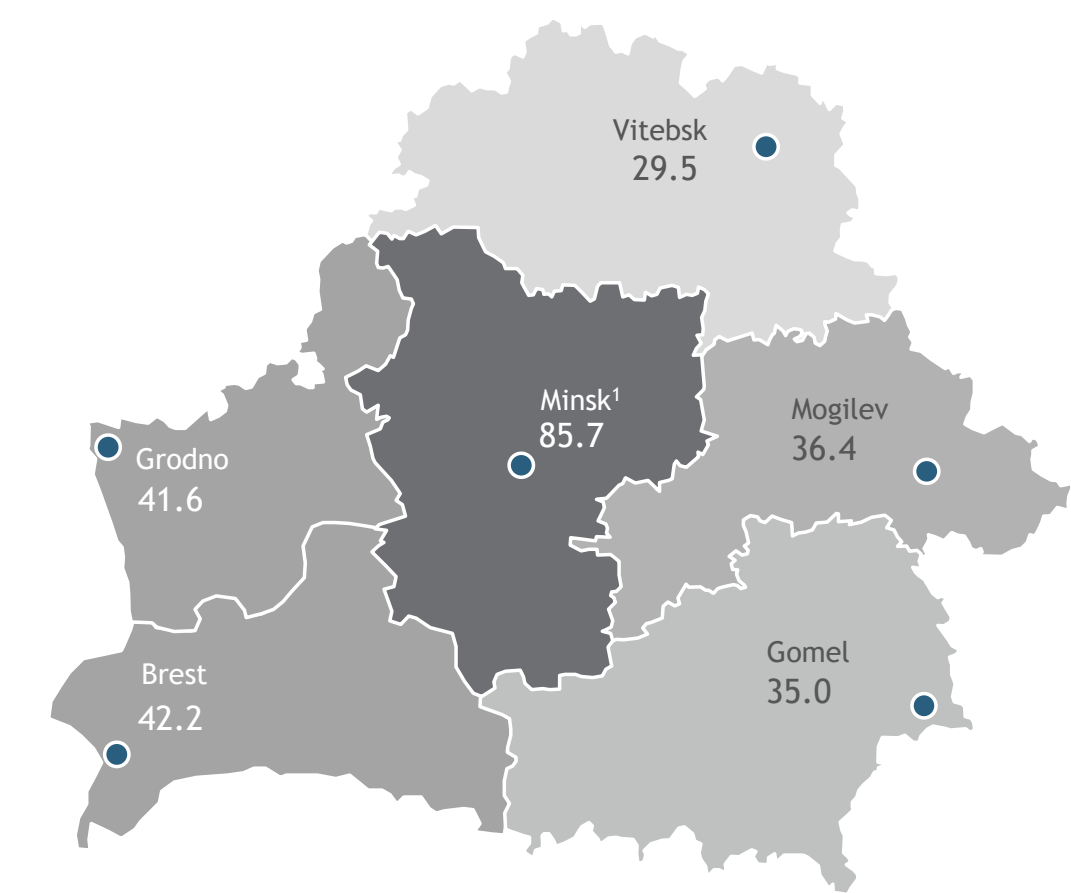
- ↑ Upward impact
- ↓ Downward impact

At the same time Belarusians are still younger than Europeans

Country	Median age 2017
Turkey	30.5
Georgia	38.0
Russia	39.3
Norway	39.7
Belarus	39.8
Poland	40.3
Ukraine	40.4
United Kingdom	40.5
Romania	40.7
France	41.2
Sweden	41.2
Czech Republic	41.7
Portugal	41.8
Spain	42.3
Serbia	42.3
Bulgaria	42.4
Latvia	43.3
Greece	44.2
Italy	45.1
Germany	46.8

Source: Belarus National Statistical Committee; Focus Economics forecasts; CIA Factbook; Population Pyramid; Belarus Digest; BCG analysis

Belarus is one of the least densely populated countries in Europe



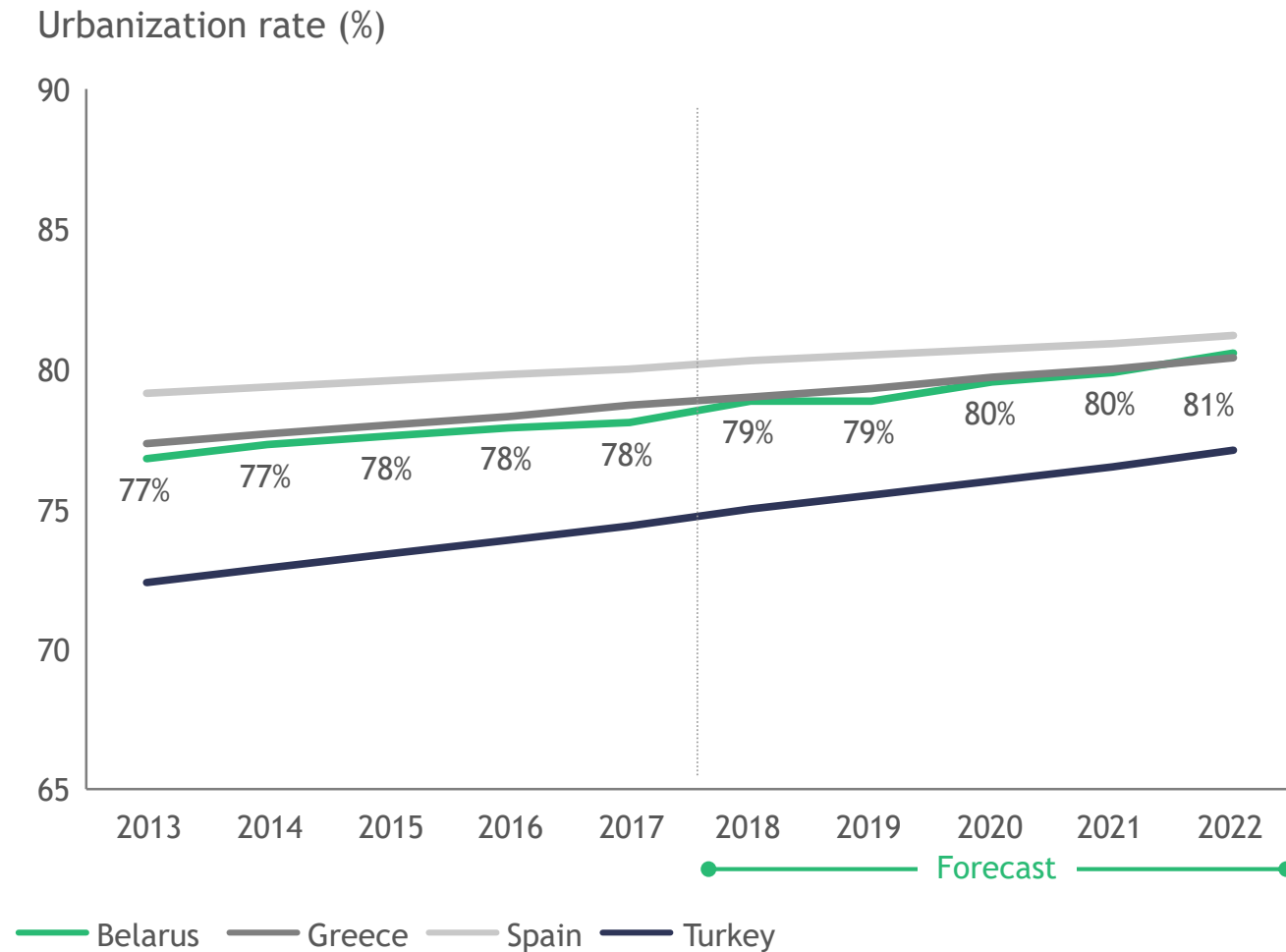
XX - Population density by region, residents per km²

1. Includes Minsk region and Minsk city
 Source: National Statistical Committee of the Republic of Belarus; World Bank; BCG analysis

Country	Population density, 2016
United Kingdom	271.1
Germany	236.4
Italy	206.1
Czech Republic	136.9
Poland	124.0
France	122.2
EU	120.7
Portugal	112.7
Turkey	103.3
Spain	92.9
Romania	85.6
Greece	83.6
Serbia	80.7
Ukraine	77.7
Bulgaria	65.7
Georgia	65.0
Belarus	46.8
Latvia	31.5
Sweden	24.4
Norway	14.3
Russia	8.8

At the same time, the population is gradually shifting to cities

Urban population in Belarus is approaching 80%, close to the highest level in Europe



Country	Urbanization rate 2017
Romania	54.9%
Poland	60.5%
Portugal	64.6%
Italy	69.3%
Ukraine	70.1%
Czech Republic	72.9%
Russia	74.2%
Turkey	74.4%
Bulgaria	74.6%
Germany	75.7%
Belarus	78.1%
Greece	78.7%
Spain	80.0%
France	80.0%
Norway	81.0%
United Kingdom	83.1%
Sweden	86.1%

Note: Urban population is assumed to remain at 2017 levels while the total population goes down
Source: Belarus National Statistical Committee, EIU; BCG analysis

Cities remain a magnet for young Belarusian citizens from rural areas, with Minsk attracting population from other regional centers

Key population trends



Shrinking of villages
Migration from urban to rural areas in steady decline

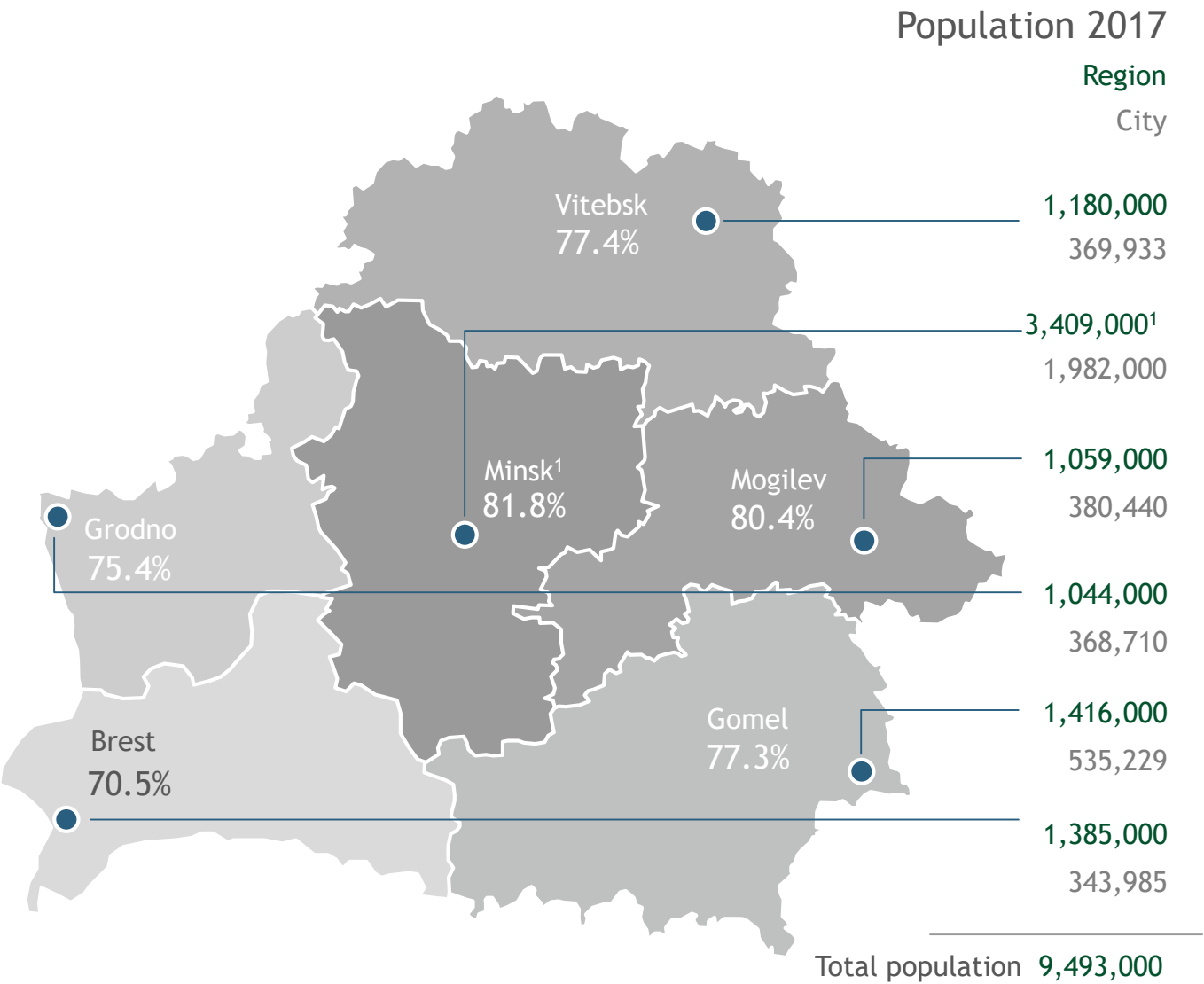


Growth of the biggest cities
Outflow from regional centers to Minsk



Younger population in cities
An urban resident is on average 5 years younger than a rural one

1. Including Minsk city and Minsk region
Source: Belarus National Statistical Committee, EIU; BCG analysis





The Belarusian government is taking measures to prevent depopulation of rural areas by providing support for agriculture and rural trade

Regulation

Key objectives



Activities



Impact



2011-15: Belarus rural development program¹

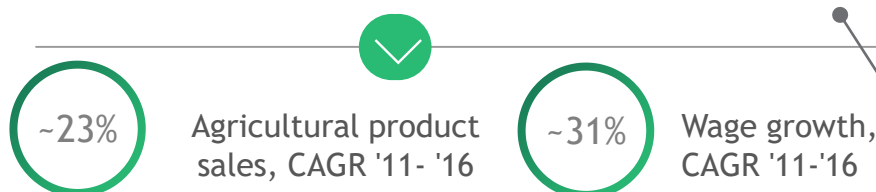
- Improve economic efficiency of agriculture
- Increase incomes of the rural population
- Improve reputation of rural areas as a place to live

- Build and upgrade agricultural facilities³
- Provide state-of-the-art agricultural machinery
- Invest in R&D
- Liberalize prices for agricultural products
- Build 20,000 apartments in rural areas
- Overhaul and build heat, water and gas supply systems
- Build and overhaul retail trade facilities

2017: Development of trade, public catering, and consumer services in rural areas and small towns²

- Promote development of retail and public catering in rural areas
- Create new jobs for people living in rural areas

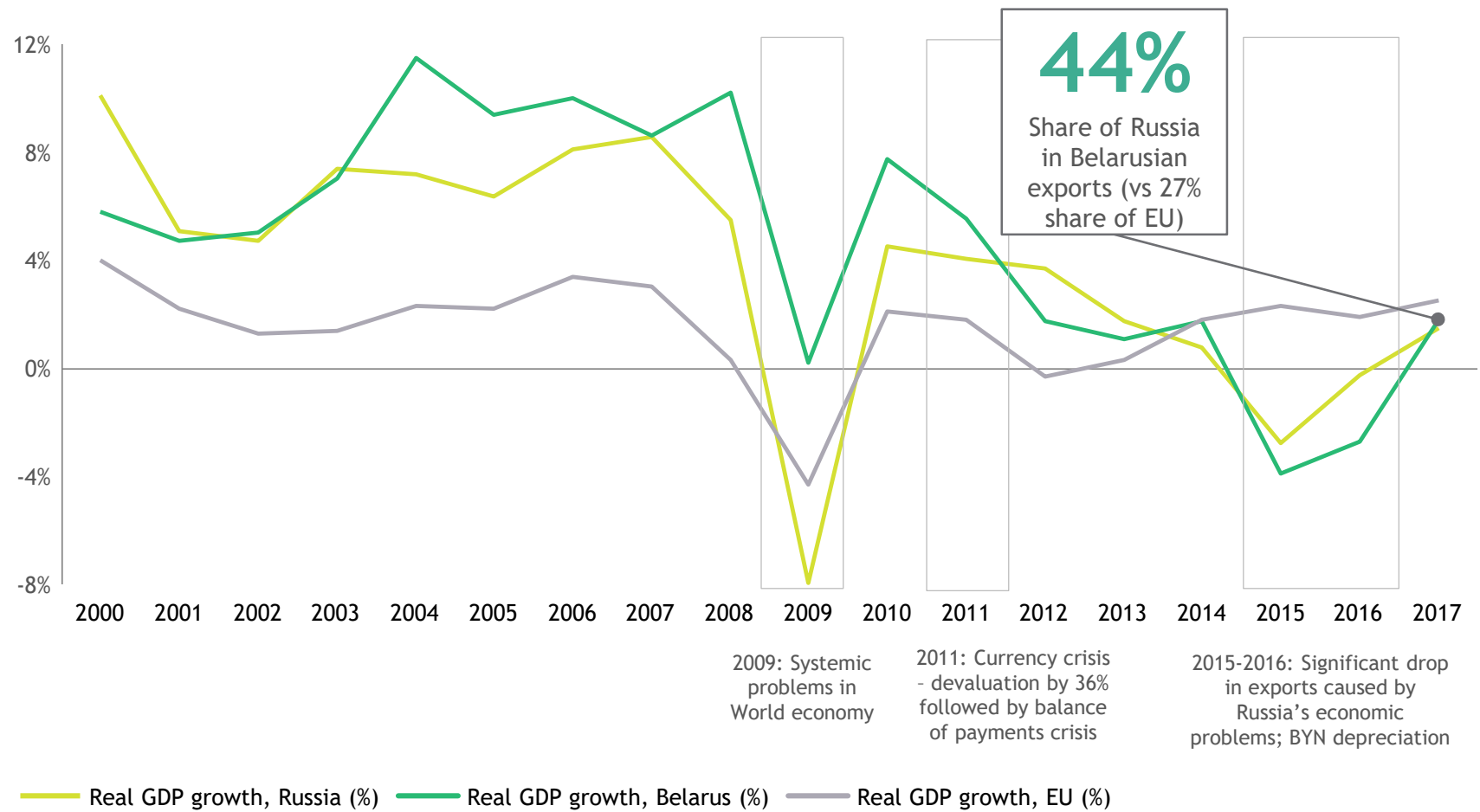
- Grant VAT exemption
- Set profit tax rate at 6% (vs 18%)
- 6% income tax rate for individual entrepreneurs
- Grant property tax exemption for land plots in state ownership
- Retailers with market share > 20% for food sales in ATU are now allowed purchase or lease additional selling space in villages with <2K inhabitants



New Agribusiness development program 2016-20⁴ is intended primarily to increase agricultural productivity and profitability

1. Presidential decree "On State Program for Sustainable Rural Development in 2011-2015" dated Aug. 1, 2011 No.342. 2. Presidential decree "On the Development of Trade, Public Catering and Consumer Services" dated September 22nd, 2017 No. 345. 3. Farms, grain elevators, processing facilities. 4. Resolution of The Council of Ministers dated March 11, 2016 № 196.
Source: Belarus National Statistical Committee, official web-portal of the President of the Republic of Belarus, Ministry of Agriculture and Food of the Republic of Belarus, BCG analysis

However, Belarus as a comparatively small country remains exposed to external volatility

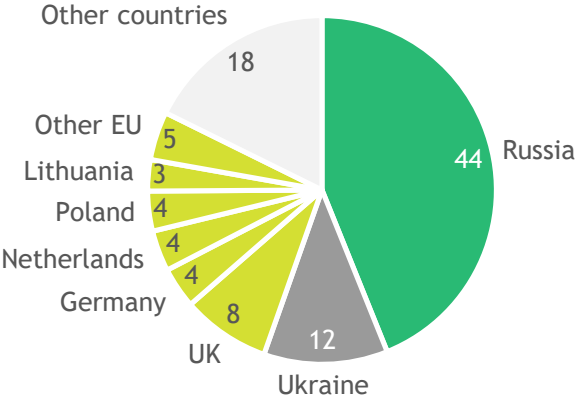


Volatility drivers

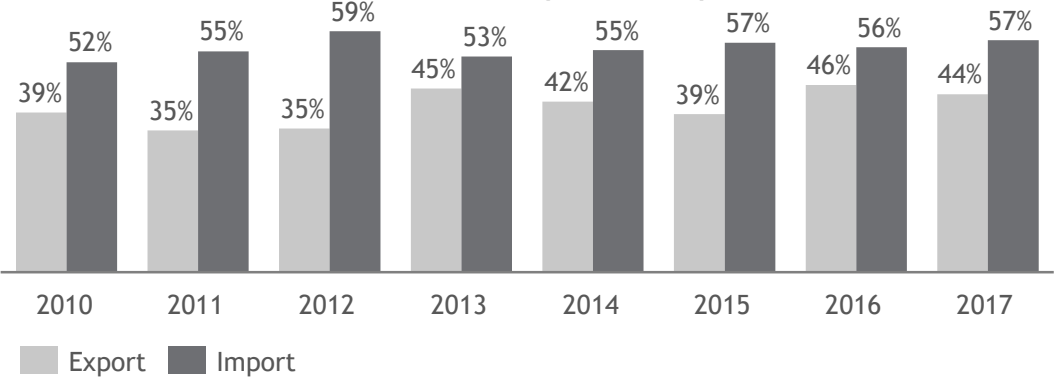
-  Performance of trading partners (Russia & EU)
 - Economy performance
 - International relations
-  Commodity prices (oil, potash)
-  Local currency (BYN) volatility and depreciation

Key trade partners of Belarus are Russia and EU, structure of trade focuses on minerals, chemical products and machinery

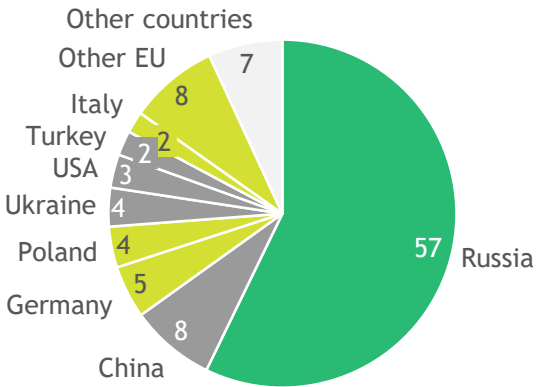
Belarusian export structure in breakdown by trade partners, 2017



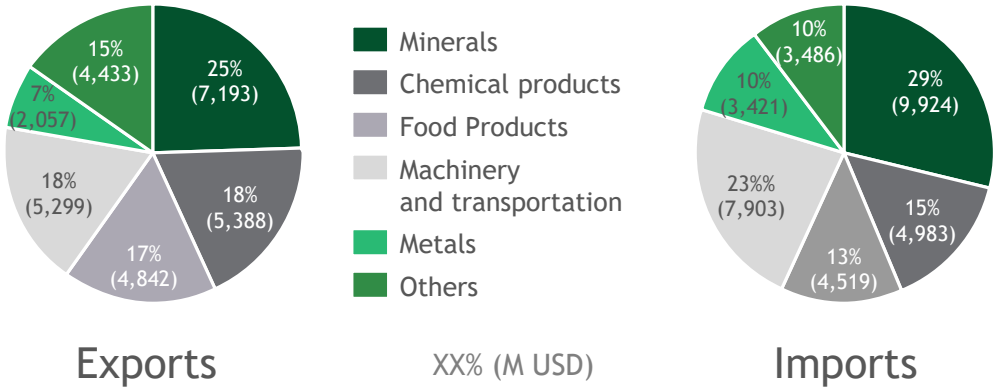
Belarus remains a stable net importer with Russia
Share of Russia in Belarusian export / import



Belarusian import structure in breakdown by trade partners, 2017



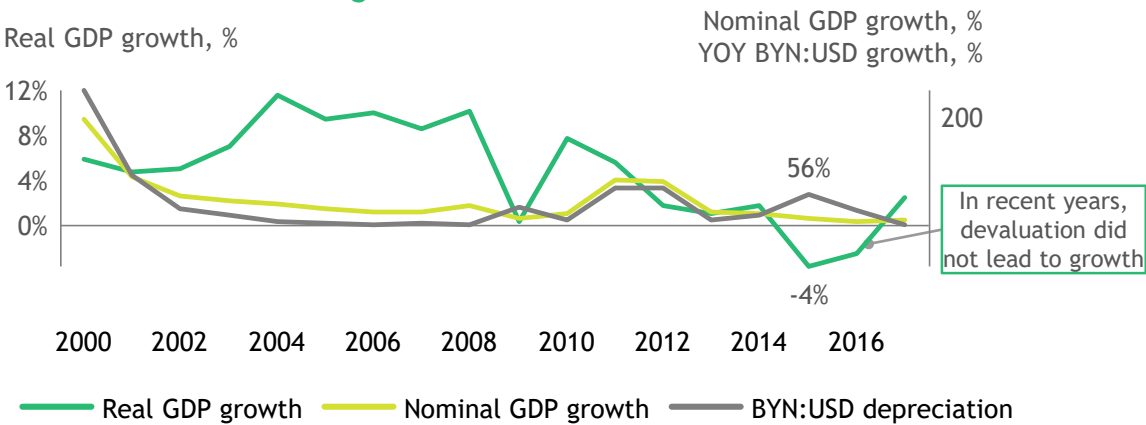
Belarusian export and import structures, 2017



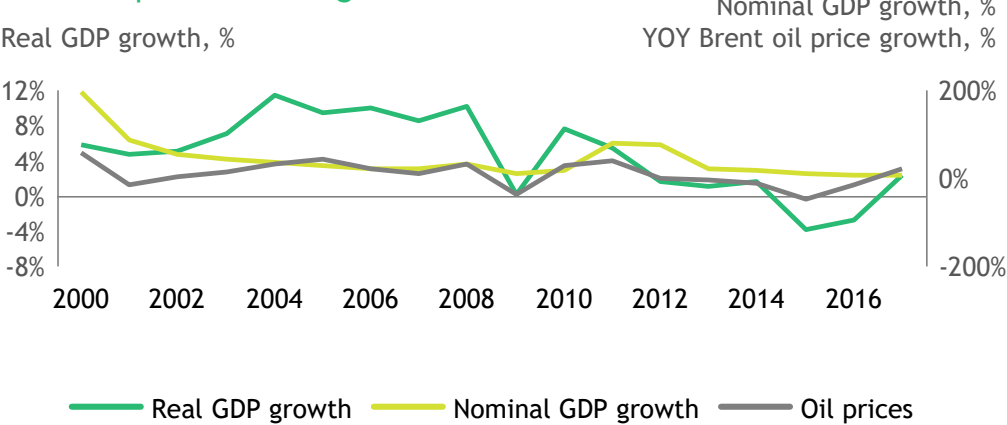
Source: Belarus National Statistical Committee

Belarusian GDP performance remains closely linked to exchange rate and commodity prices

BYN:USD x-rate vs. GDP growth



Brent oil prices vs GDP growth



Exchange rate



Belarus as a comparatively small economy sustains high current account deficit levels and is thus exposed to x-rate volatility

In the past, currency devaluation led to increased competitiveness of exports, causing real GDP growth and real wage growth in following years

As wages reached \$500-600 per month, costs rose making exports less competitive and increased income caused growth in imports

All resulted in current account deficit and another cycle of currency devaluation

Oil prices



Belarusian economic dependence on Russia...

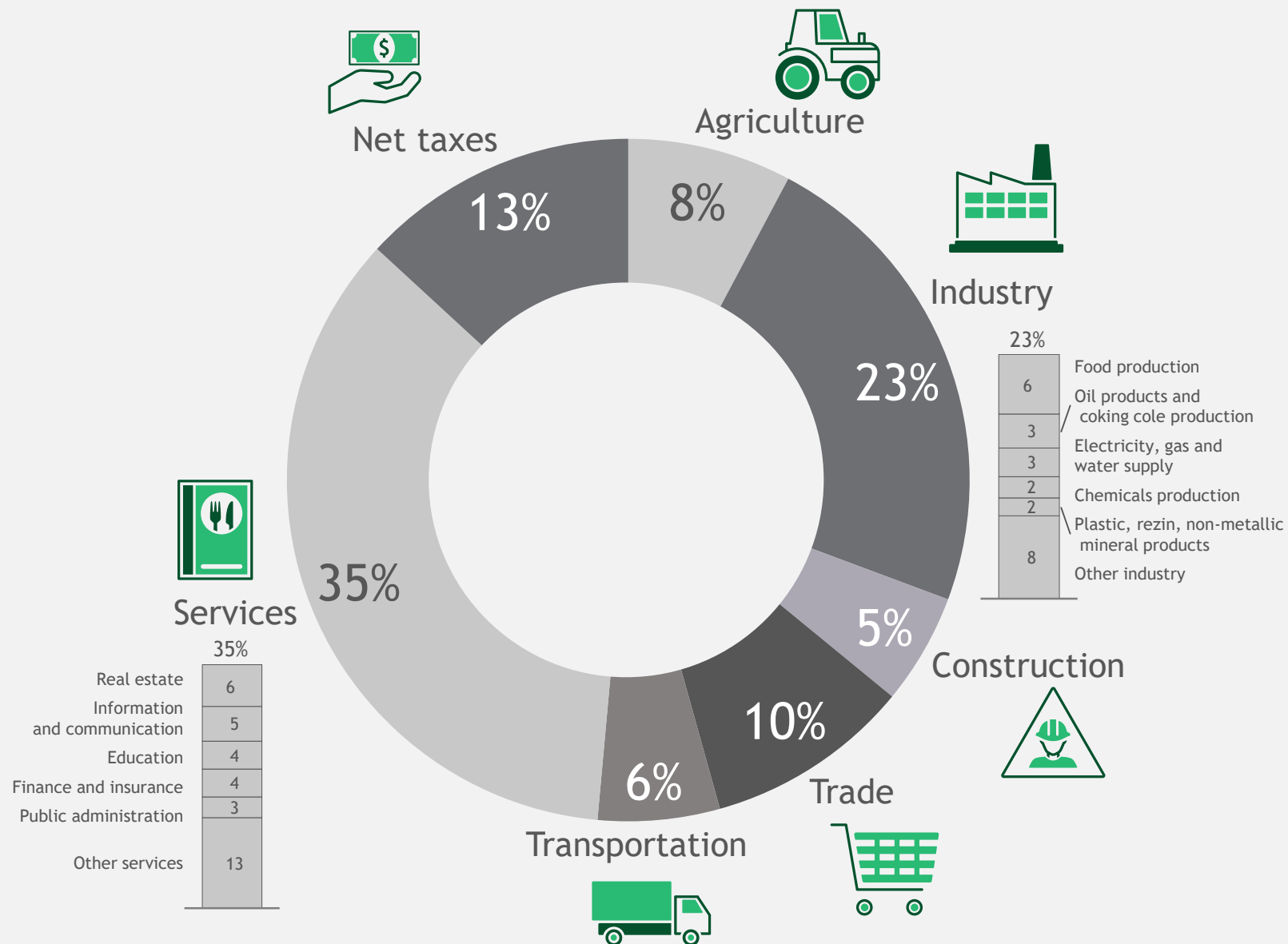
...as export market: 44% of Belarus exports go to Russia

...as crude oil supplier: petroleum products produced from Russian crude oil account for 20% of Belarusian exports - a key driver for foreign currency inflow to finance budget imbalances

In the past, drop in oil prices weakened RUB and made Belarusian exports less competitive on the Russian market

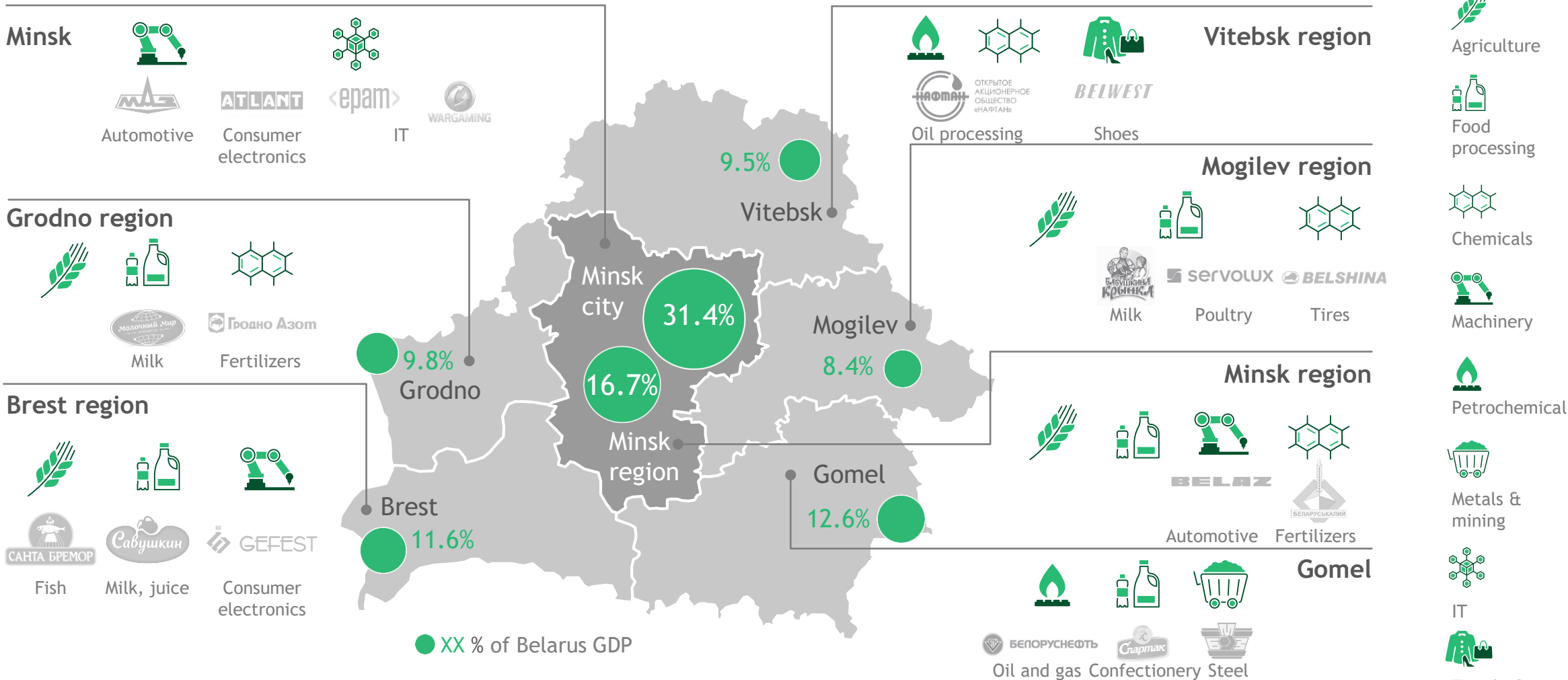
Belarusian GDP structure, 2017

Services and Industry are key economy sectors



Source: Belarus National Statistical Committee

Almost 50% of Belarusian GDP is concentrated in Minsk and Minsk region

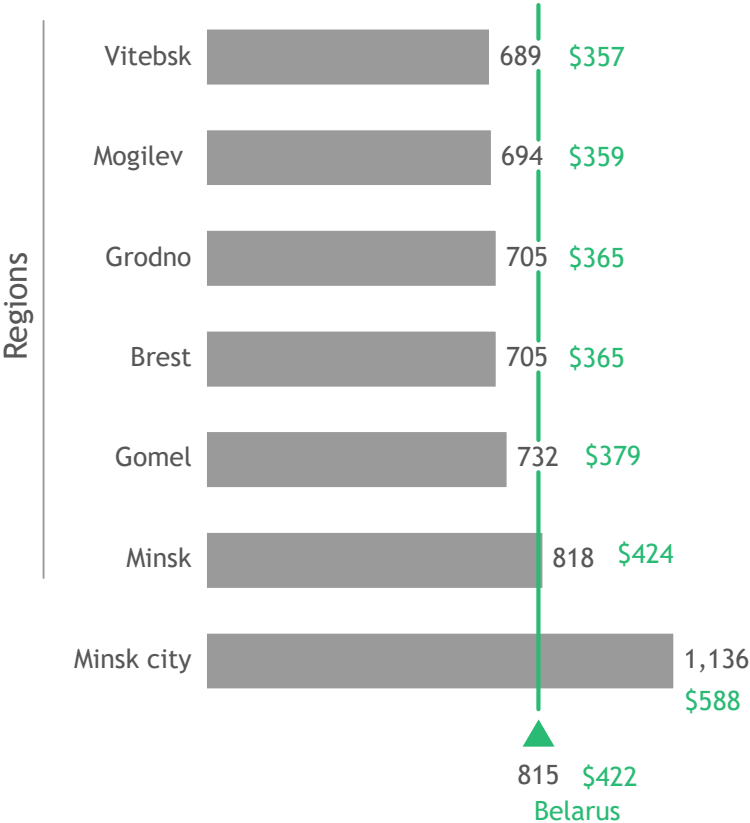


Note: Unassigned GDP was allocated proportionally to assigned GDP from the region
Source: Belarus National Statistical Committee

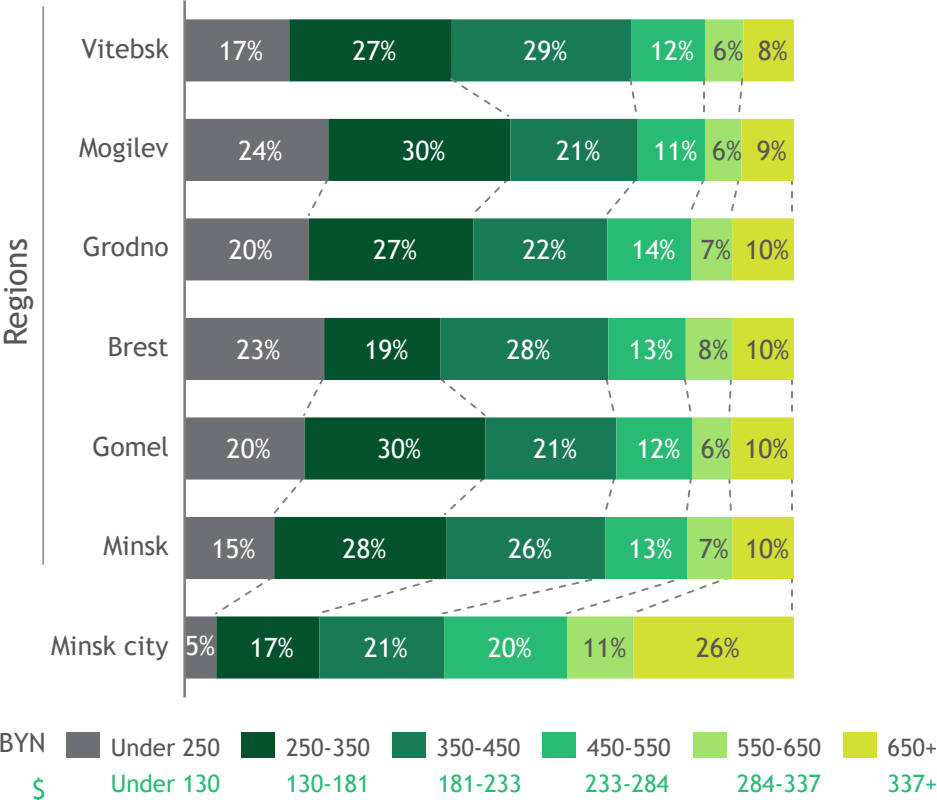
As a result, wages and disposable income are also the highest in Minsk and Minsk region and distributed evenly across other regions

Urban/rural residence is an additional driver of income difference

Average monthly wage by Belarus region in 2017, BYN



% households by disposable income per person per month

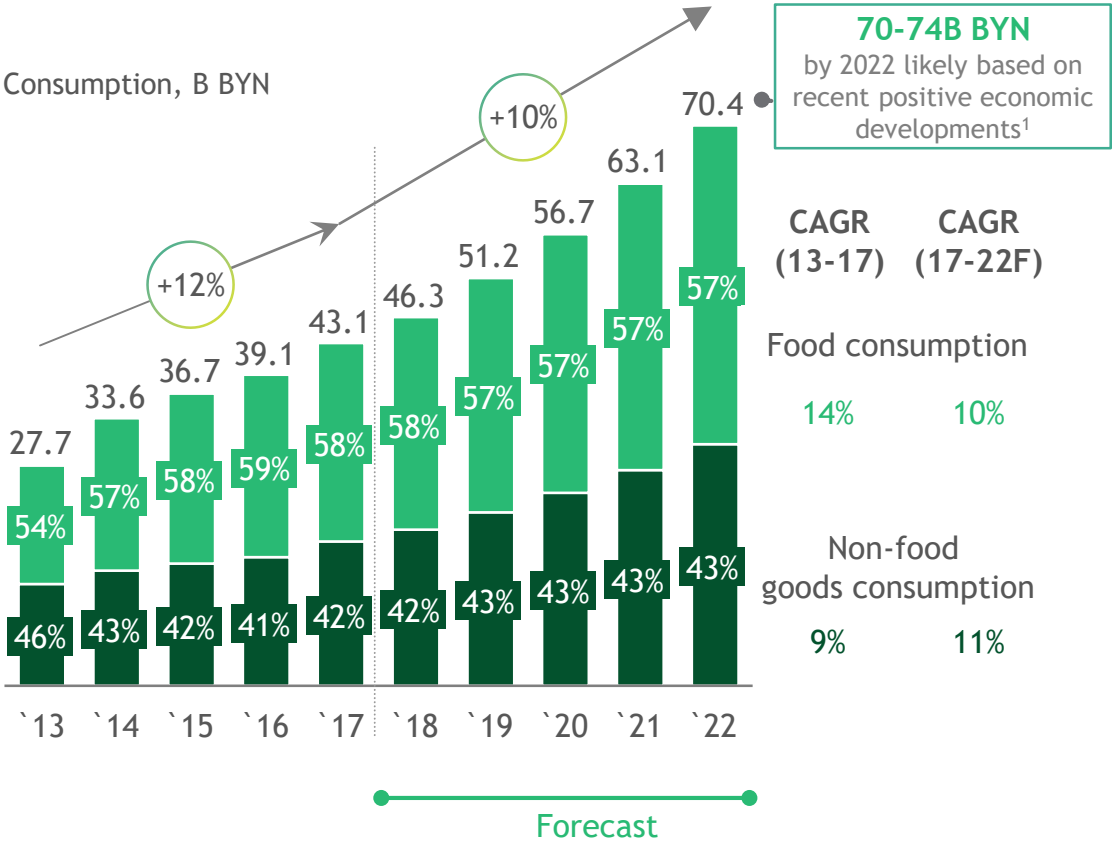
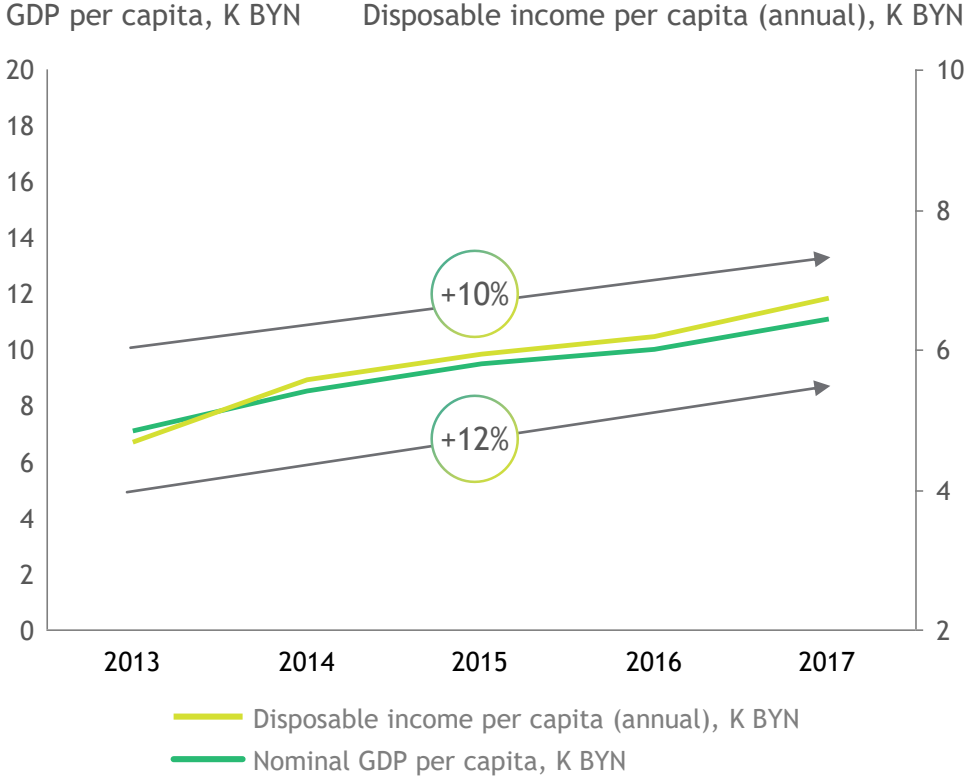


20% difference in average per capita income between villages (< 10 k population) and Minsk/capitals of regions

7% difference in average per capita income difference between villages (< 10 k population) and towns (> 10 k population)

Note: USD to BYN exchange rate used is average of 2017 from NBRB;
Source: Belarus National Statistical Committee; National Bank of the Republic of Belarus; BCG survey

GDP growth expected to boost consumption via growth in disposable income

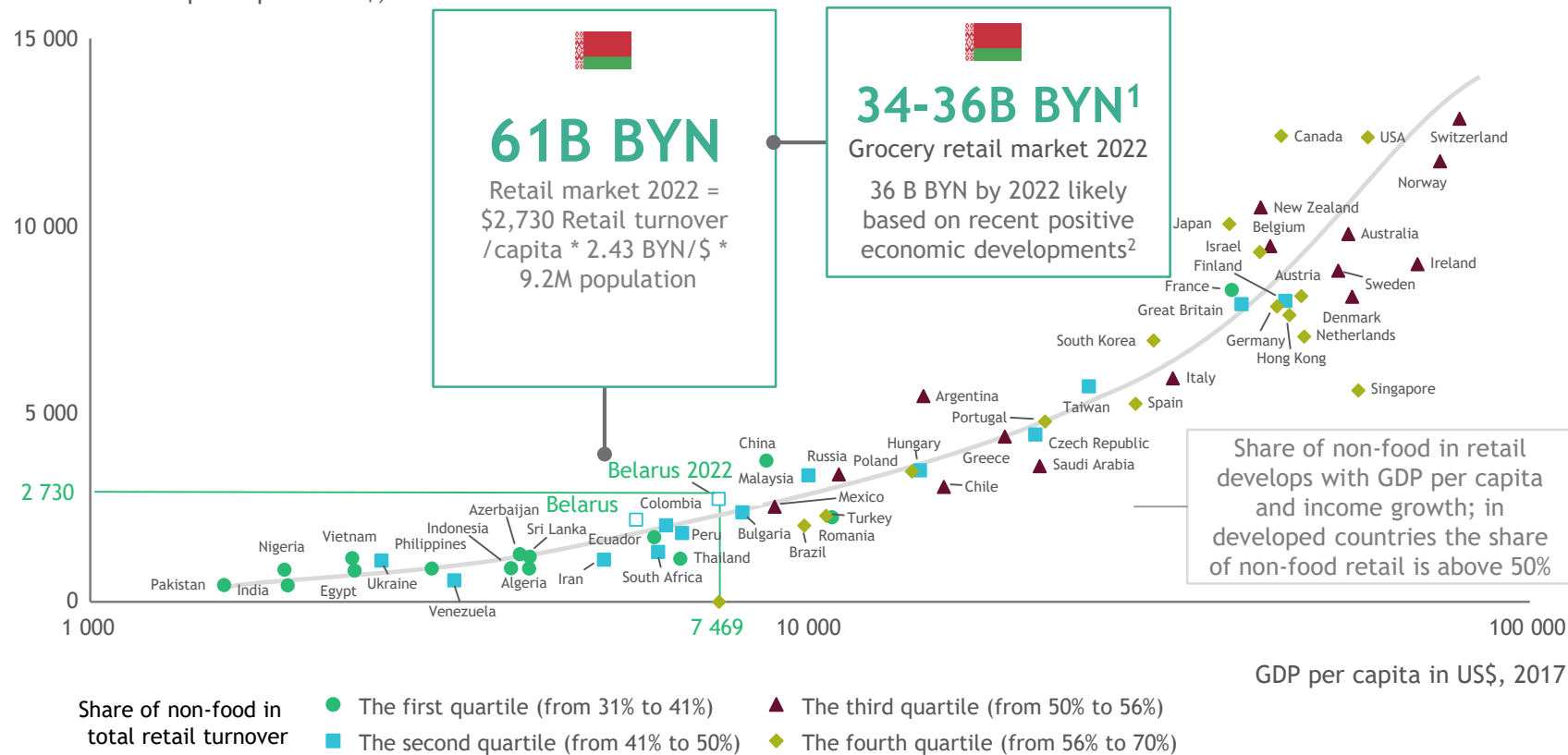


1. The World Bank Belarus economic update on 19 April 2018
Note: Consumption of services excluded; food consumption includes alcohol and tobacco; forecast for 2018-2022 based on nominal GDP growth, assuming share of food and non-food consumption to develop based on historical trend in share of food and non-food in consumer expenses
Source: Belarus National Statistical Committee; BCG analysis

Retail turnover expected to grow with GDP

As forecasted, 2022 GDP/capita level retail market reaches 61B BYN, grocery 34-36B BYN

Retail turnover per capita in US\$, 2017



The higher the GDP per capita of a country, the higher are consumption and retail turnover

Food spending is **resilient** - people will always buy food, so if their income shrinks (e.g. due to currency devaluation), their grocery bill will stay roughly the same or shrink much slower

When income grows, people tend to spend more on food by buying more expensive items

1. Assuming constant share of grocery market in total retail; 2. The World Bank Belarus economic update on 19 April 2018
Source: The Economist Intelligence Unit for Retail, Oxford for GDP, Belarus National Statistical Committee, BCG analysis

Grocery Retail Market Overview



Executive summary



Overview

2012-2017

- The Belarusian Grocery Retail Market reached ~22 B BYN (11 B USD) in 2017
- The market grew by 15% CAGR in 2012-2017 in nominal terms and 2% CAGR in real terms
- Modern Trade reached a 46% share and grew by 29% CAGR (nominal)
- In Modern Trade development Belarus is lagging behind Europe and is similar to Poland more than 10 years ago and Romania 5 years ago

2018-2022

- The market is expected to reach 34-36 B BYN (14-15 B USD) in 2022
- The market is to grow by 9% CAGR in nominal terms and 2% CAGR in real terms
- Modern Trade is to reach 60-70% by 2022
- Modern Trade is to grow by 15% CAGR (nominal)



Formats and Private Label

- Supermarkets are the most popular format (39% of Modern Trade Sales), followed by Hypermarkets (34%) and Convenience Stores (25%); format distribution similar to Serbia and Latvia
- Modern format penetration is significantly below European levels
- There are no discounters in Belarus
- The convenience format is expected to drive market growth in 2018-2022
- The Private Label share in grocery is below 5%, significantly lower than European levels



Players

- Top 5 players make up 62% of Modern Trade Sales, more consolidated than the Eastern European average
- No.1 Modern Player (Eurotorg) has 5 times the market share of No.2 (Korona)
- Eurotorg is the leader across all Modern Trade formats
- Gippo is becoming the No.2 player in MT with its acquisition of Belmarket, however the 5x share gap between top 2 players persists



Geography

- Modern Trade penetration is dispersed, ranging by region from below 40% to above 60%
- 54 out of 129 ATU¹ have less than 20% Modern Trade penetration
- Eurotorg is the only top player with significant presence in small cities and villages

1. Administrative territory unit (~1600 km² on average, 129 ATU in Belarus for the purposes of anti-monopoly regulation)
Source: Euromonitor, Planet Retail, Belarus National Statistical Committee, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model



Grocery Retail Figures

Belarus Grocery Retail 2017

11B
USD

Market Size¹

~6K
USD

Sales per m² in
Modern Trade²

15%

CAGR in '12-'17
(nominal)

0.9 M
m²

Modern Trade²
Selling Space

5x

#1 player is 5
times #2 in
Modern Trade²

62%

Share of top 5
players
in Modern Trade²

46%

Share of Modern
Trade²

<5%

Share of Private
Label in grocery
retail

1. All figures include Sales Tax/VAT; 2. Self service stores (vs behind-the-counter attendant model), usually part of large retail chains with centralized management and supply chain, strict quality standards and highly documented store processes, e.g. hard planograms; Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, BCG market model

The Belarusian grocery retail market is similar to ...



Romania

Grocery retail market size per capita in 2017

- 1,156 USD in Romania
- 1,201 USD in Belarus

Share of Modern Trade

- 47% in Romania in 2012
- 46% in Belarus in 2017

MT Share gap between top 2 players

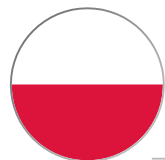
- 17% in Romania
- 32% in Belarus

Road Network

- 85,000 km in Romania
- 87,000 km in Belarus

Road Density Index¹

- 37 in Romania
- 43 in Belarus



Poland

Share of Modern Trade

- 47% in Poland in 2006
- 46% in Belarus in 2017

MT Market Consolidation in 2017 (top 5 players)

- 61% in Poland
- 62% in Belarus

MT Share gap between top 2 players

- 12% in Poland
- 32% in Belarus

Convenience format Share of Sales in 2017

- 27% in Poland
- 25% in Belarus



Turkey

Grocery retail market size per capita in 2017

- 1,144 USD in Turkey
- 1,201 USD in Belarus

Share of Modern Trade

- 49% in Turkey
- 46% in Belarus

Grocery retail market CAGR '17-'22

- 8% in Turkey
- 9% in Belarus

MT CAGR '17-'22

- 13% in Turkey
- 15% in Belarus



Serbia

Share of Modern Trade

- 48% in Serbia
- 46% in Belarus

MT Selling Space per 1,000 people in 2017

- 112 m² in Serbia
- 99 m² in Belarus

Convenience format Share of Sales in 2017

- 26% in Serbia
- 25% in Belarus

Share of private label in grocery sales

- 6% in Serbia
- <5% in Belarus

Maximum Shoulder²

- 5.4 hours in Serbia
- 5.4 hours in Belarus



Spain

MT Sales per m² in 2017

- 6,100 USD in Spain
- 5,637 USD in Belarus

MT Market Consolidation in 2017 (top 5 players)

- 56% in Spain
- 62% in Belarus

MT Share gap between top 2 players

- 16% in Spain
- 32% in Belarus

Road Density Index¹

- 30 in Spain
- 43 in Belarus

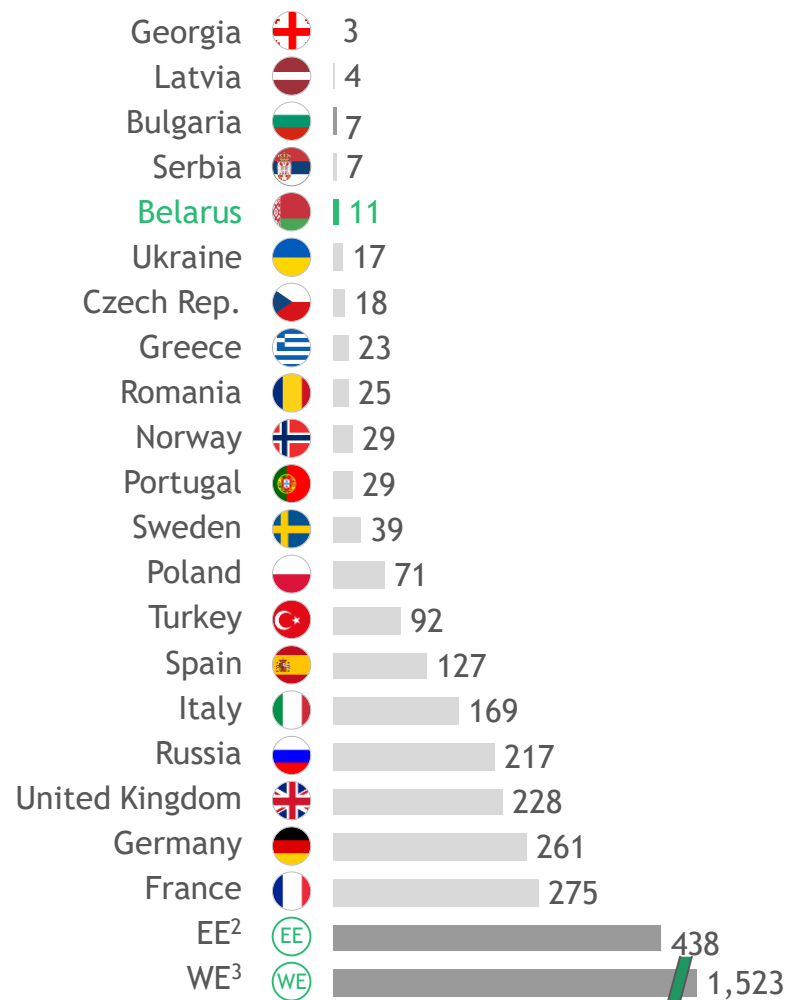
Note: Selected benchmarks are countries with grocery retail indicatives most close to Belarus.

1. Road network per 100 km², km. 2. Hours to reach the most distant point from center of the country.

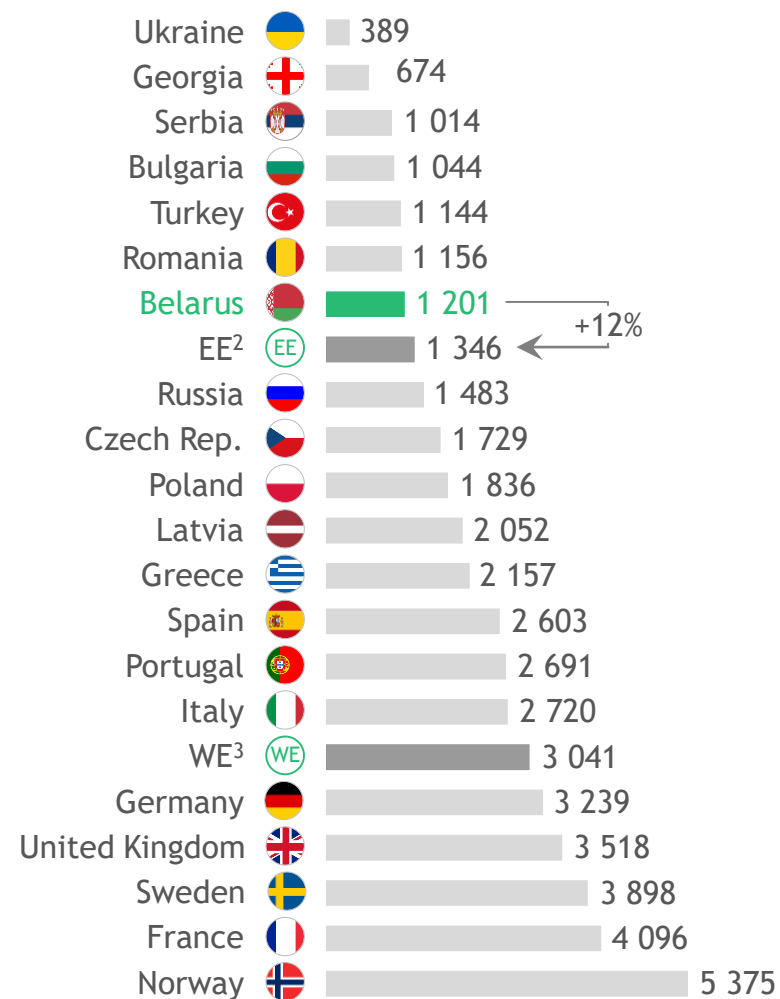
Source: Belarus National Statistical Committee, Planet Retail, Euromonitor, World Bank, BCG market model

Belarus Grocery Retail Market per capita is close to EE average

Grocery Retail¹ (B USD, 2017)



Grocery Retail per capita (USD, 2017)



1. Grocery Retail does not include Non-store based Retailing such as Grocery e-commerce. All figures include Sales Tax/VAT

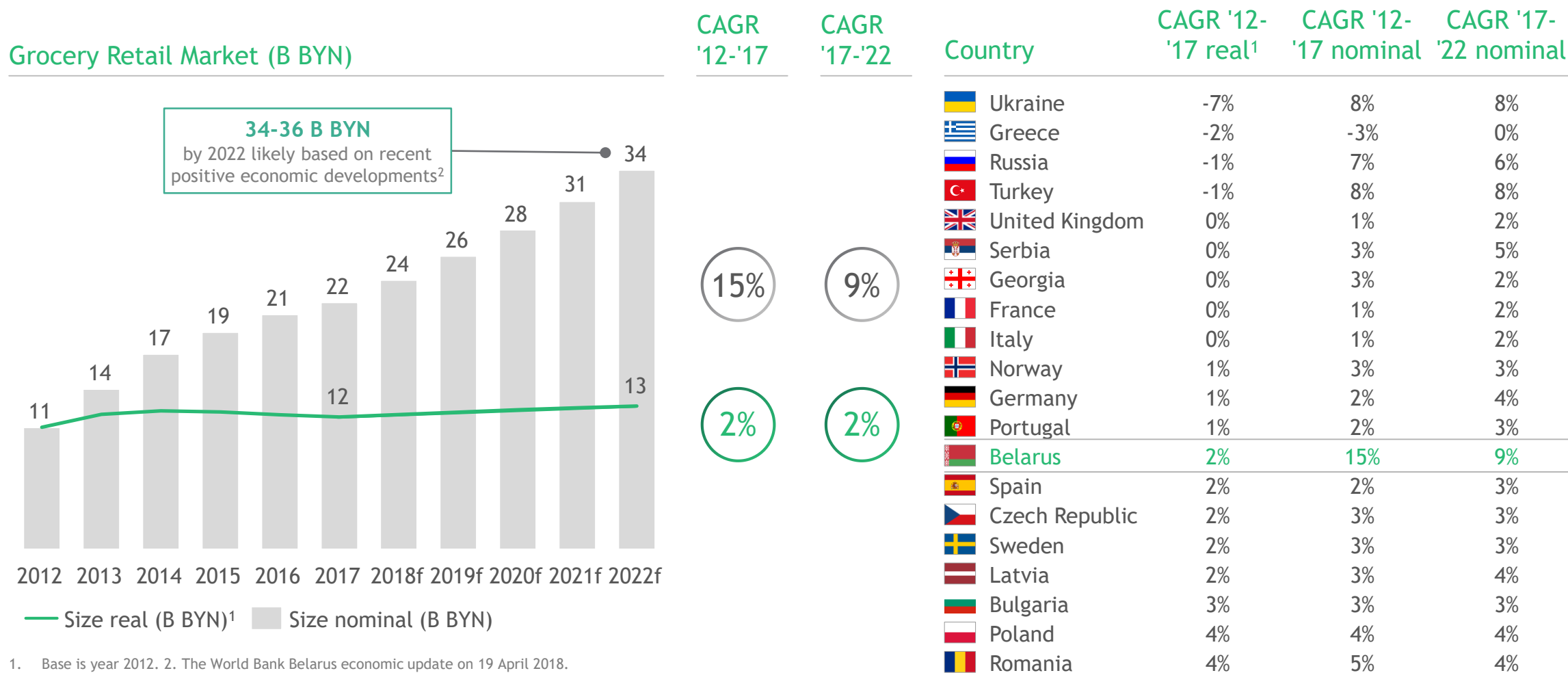
2. EE - Eastern Europe: Albania, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Ukraine.

3. WE- Western Europe: Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom

Note: For all countries except Belarus data is from Euromonitor. For Belarus, analysis is based on BCG market model built bottom-up using national statistical data (Belarus National Statistical committee), company sales data (Euromonitor), selling space & outlets (Ministry of Antimonopoly Regulation and Trade - MART), company press-releases and expert interviews.

Source: Belarus National Statistical Committee, Euromonitor, CIA Factbook, Company data, BCG market model

Belarus' grocery retail market scored double-digit growth over the past 5 years; high growth momentum is expected to be maintained

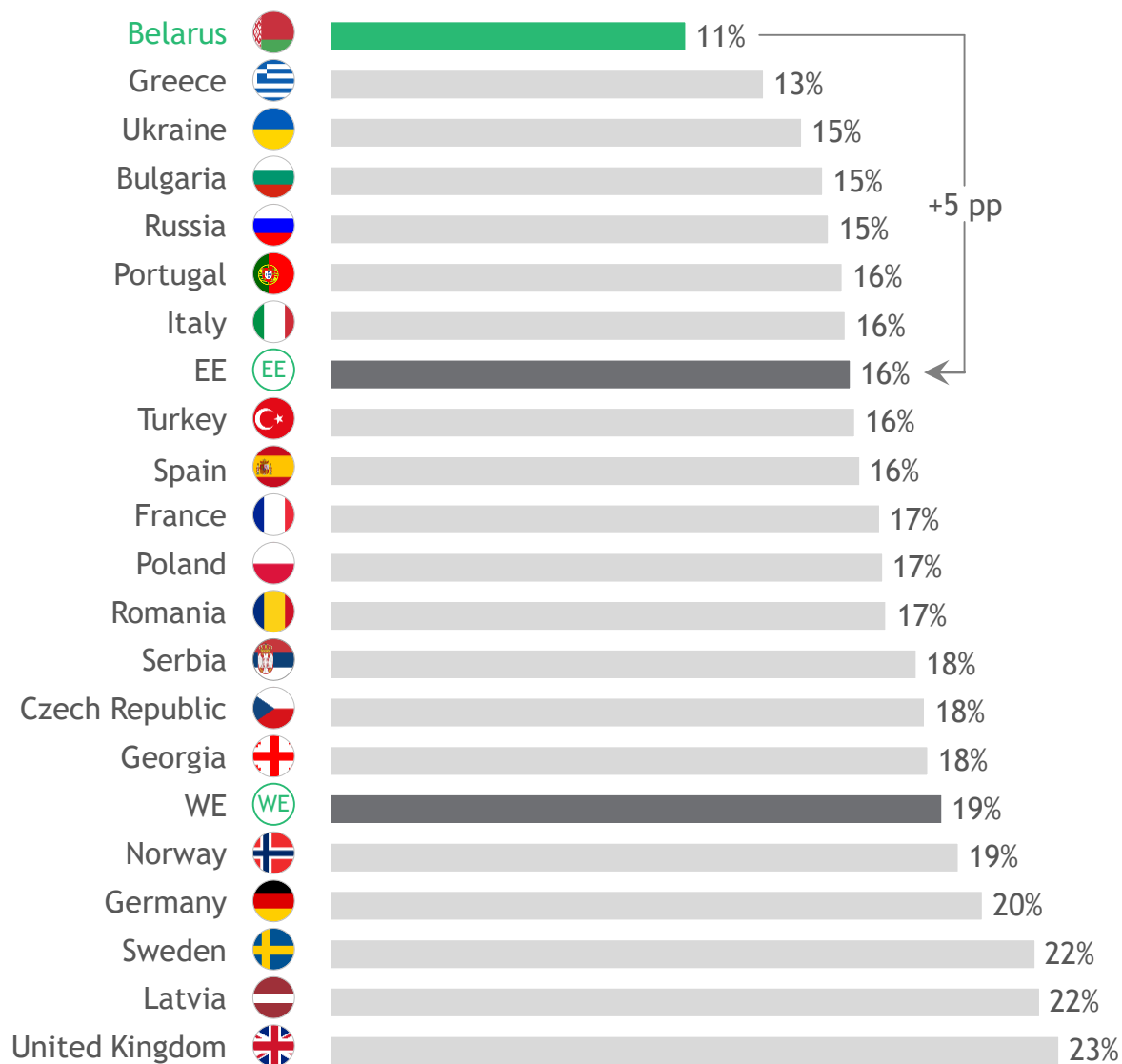


1. Base is year 2012. 2. The World Bank Belarus economic update on 19 April 2018.

Note: For all countries except Belarus data is from Euromonitor. For Belarus, analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. Source: Belarus National Statistical Committee, Euromonitor, CIA Factbook, World Bank, Company data, BCG market model

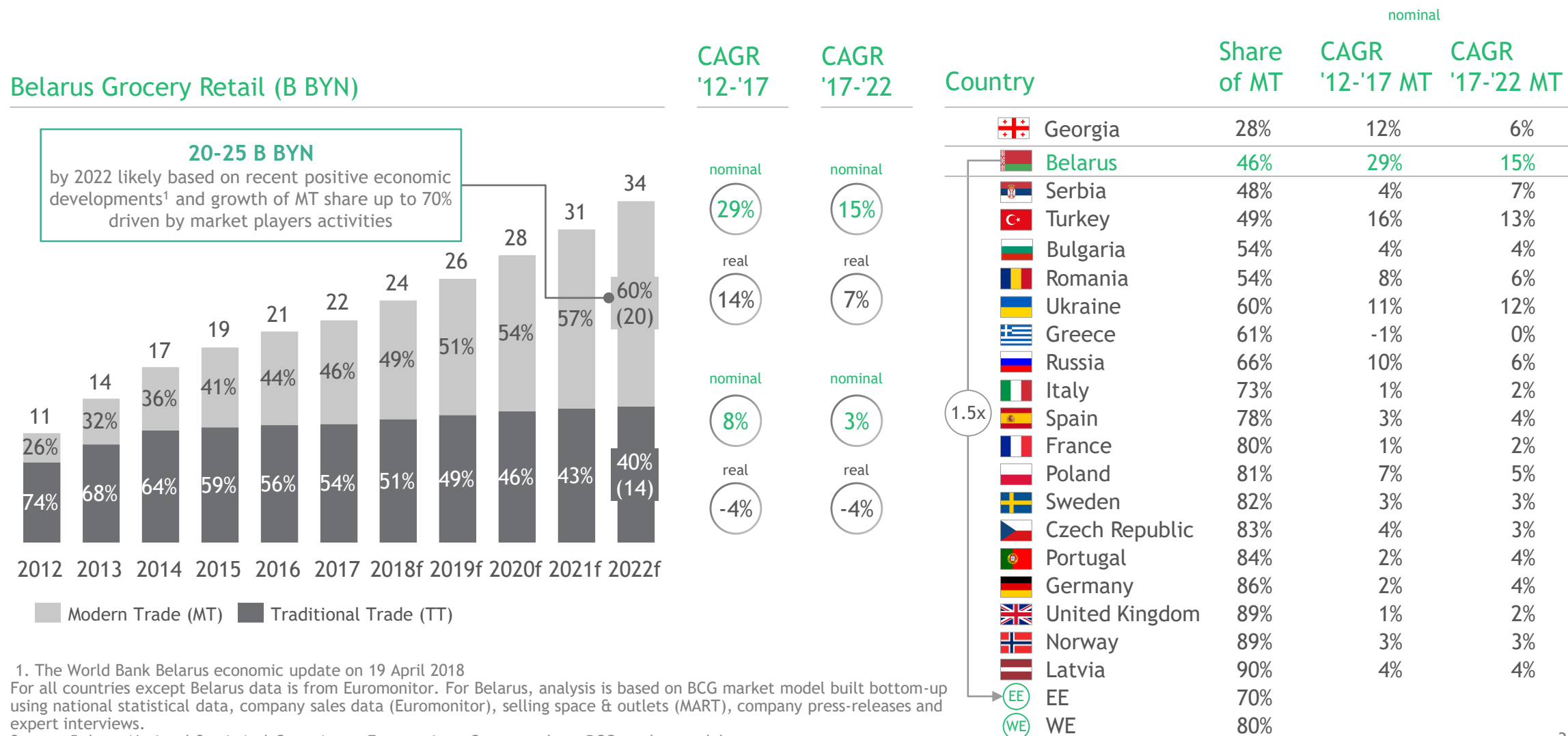
Non-food share growth
will further increase
addressable market
in Belarus

Share of non-food in grocery retail market (% , 2017)



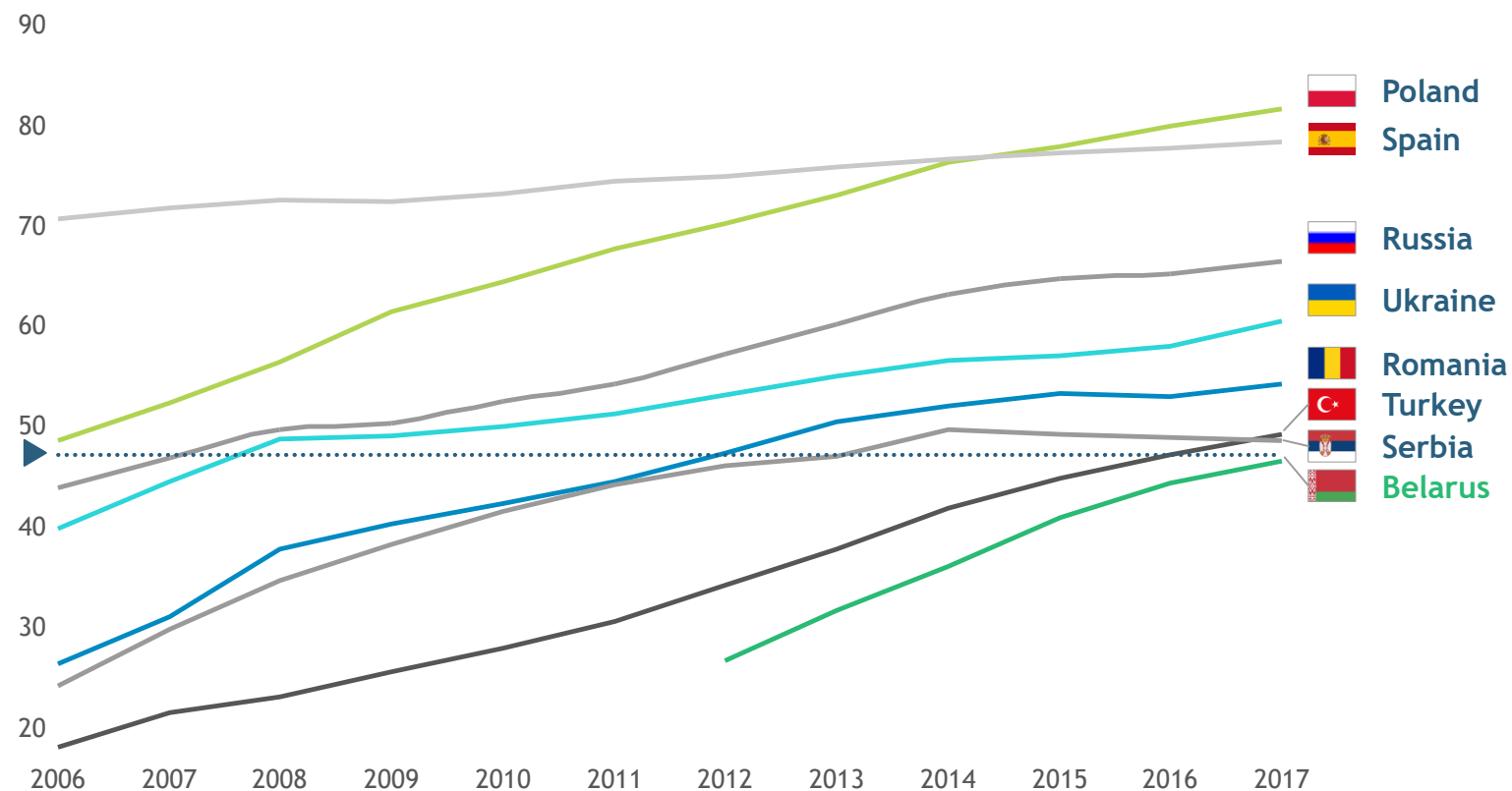
Note: For all countries except Belarus data is from Euromonitor. For Belarus, analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews.
Source: Belarus National Statistical Committee, Planet Retail, Company data, BCG market model

The modern grocery trade as an engine for growth - still a journey ahead to catch up with European countries



Belarus today is similar to Poland over 10 years ago and Romania 5 years ago, 60-70% share of Modern Trade is feasible by 2022

MT share (% , Grocery Retail)

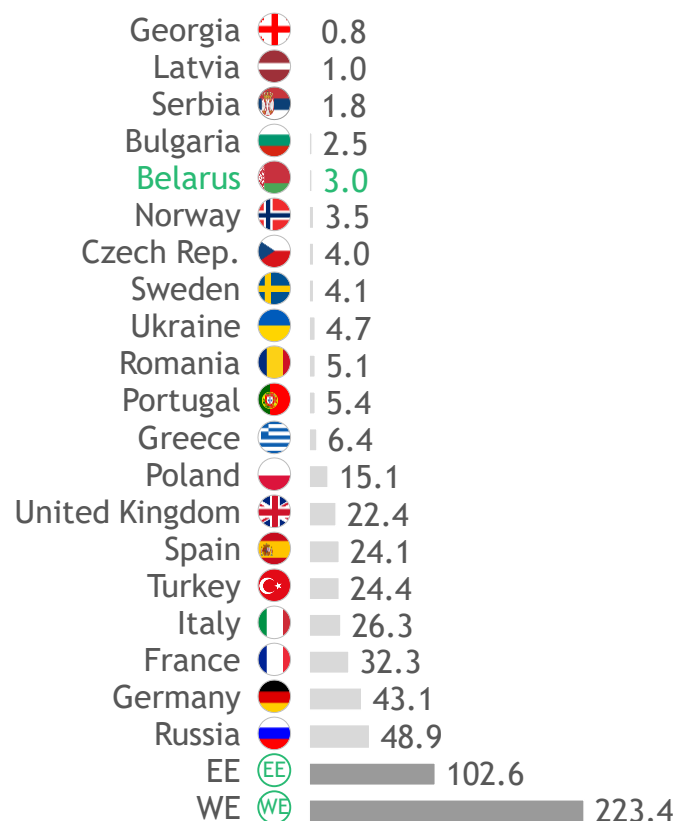


Belarus in 2017 is similar to Poland in 2006 or Romania in 2012

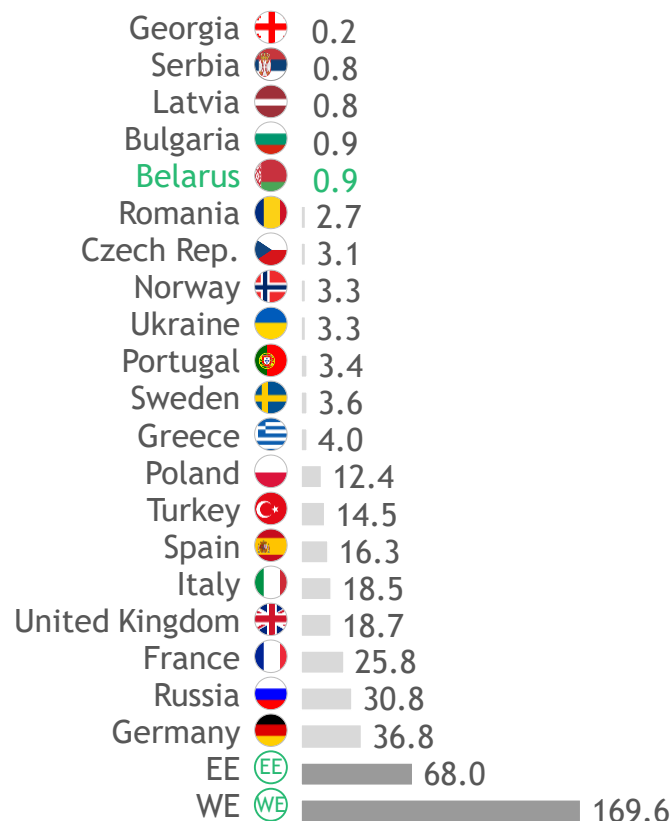
60-70% MT share by 2022 is feasible driven by key players' activity

Room to grow: Belarus' modern retail space is half of EE levels

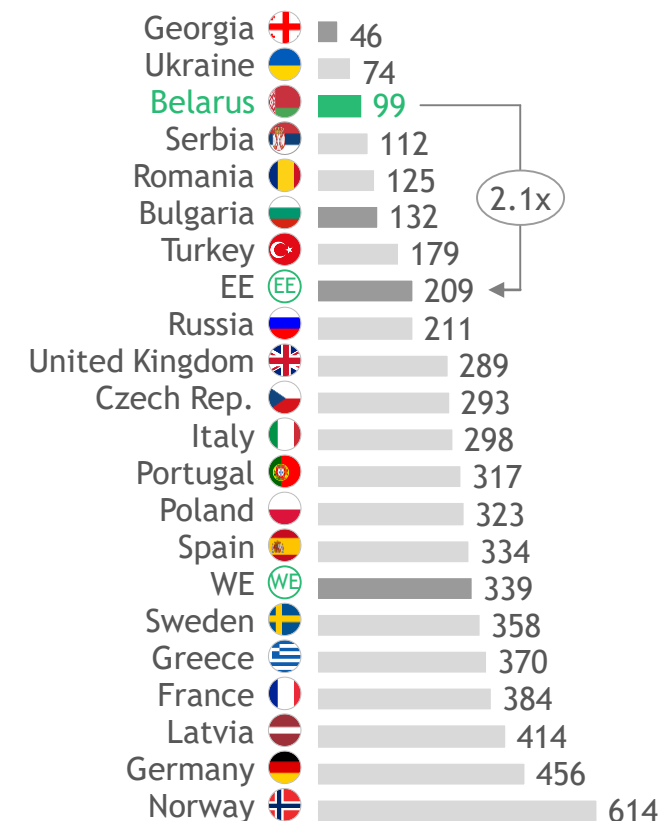
Grocery Selling Space (M m² , 2017)



MT Grocery Selling Space (M m² , 2017)



MT Grocery Selling Space per '000 people (m² , 2017)



Note: For all countries except Belarus data is from Euromonitor. For Belarus, analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space and outlets (MART), company press-releases and expert interviews.

Source: Belarus National Statistical Committee, Euromonitor, CIA Factbook, BCG market model

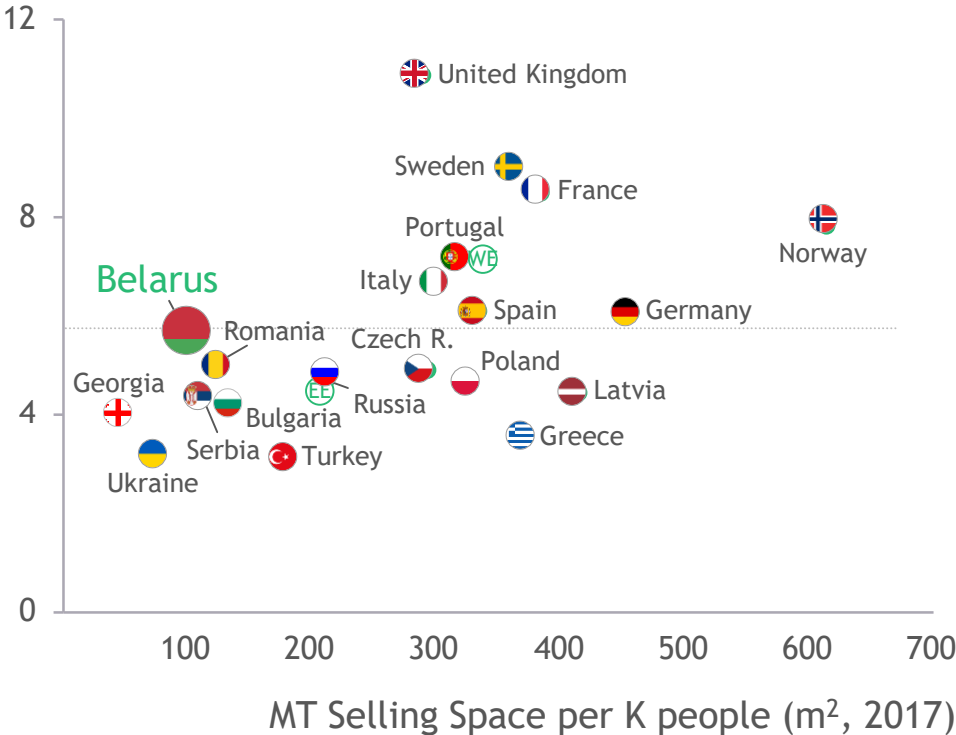


Sales productivity in Belarus above EE levels, peer market examples show productivity does not decline at least until share of MT reaches 80%

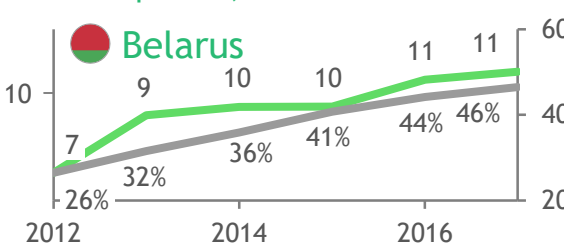
Belarus Modern Trade:
Sales productivity is above EE levels

Sales productivity in peer markets can be growing or stable up to 80% share of MT

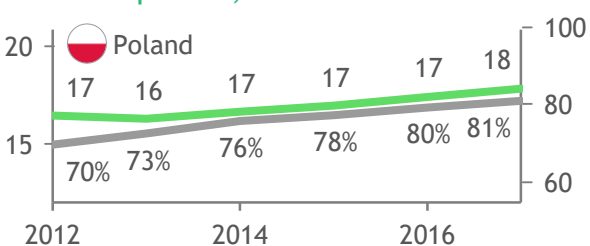
MT Sales per m² (K USD, 2017)



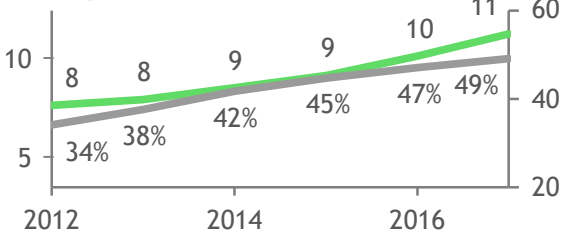
MT Sales per m², K LCU¹ Share of MT, %



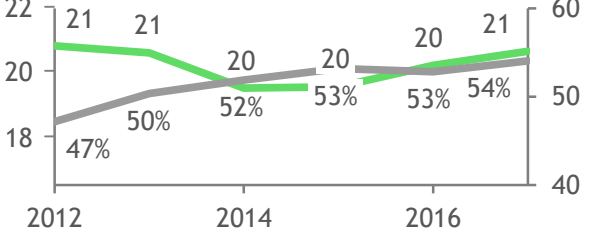
MT Sales per m², K LCU¹ Share of MT, %



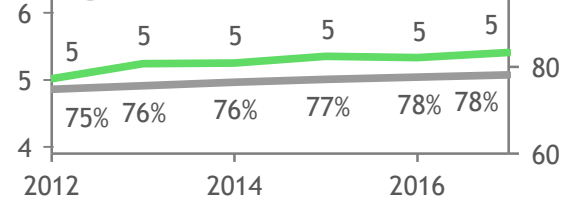
MT Sales per m², K LCU¹ Share of MT, %



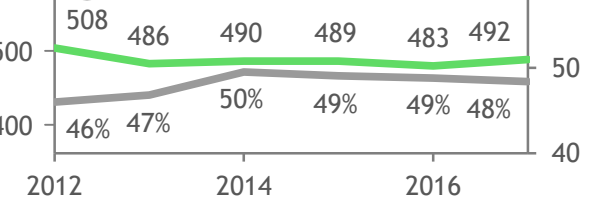
MT Sales per m², K LCU¹ Share of MT, %



MT Sales per m², K LCU¹ Share of MT, %



MT Sales per m², K LCU¹ Share of MT, %



1. In thousand of local currency unit

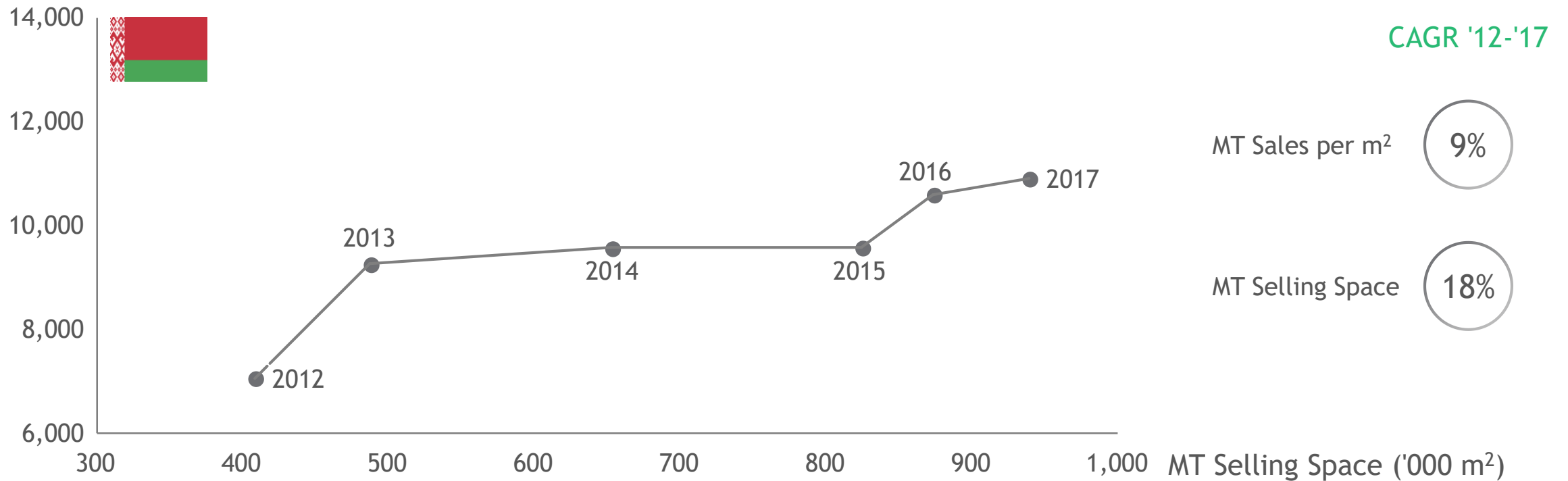
Note: For all countries except Belarus data is from Euromonitor. For Belarus, analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space and outlets (MART), company press-releases and expert interviews

Source: Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, expert interviews BCG market model













Belarusian Modern Trade: rapid growth in selling space, along with sales productivity gains

MT Sales per m² (BYN)



Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews.
Source: Euromonitor, Company data, BCG market model

Five key store formats present in Belarus' retail market

	Format	Selling Space	Definition	# of outlets in Belarus (2017)
Modern Trade	 Forecourts	<400 m ²	Convenience outlets located at petrol stations; consumer proposition is typically focused on impulse products for immediate consumption	 544
	 Hypermarkets	>2,500 m ²	Self-service stores, offering both a comprehensive food range and a wide choice of non-food items (>15% of total sales); number of SKUs - above 20K	 81
	 Supermarkets	400-2,500 m ²	Self-service stores; largely grocery offer with limited non-food (<10% of total sales); number of SKUs ~8-20K	 468
	 Convenience stores	<400 m ²	Small grocery self-service outlets typically located in convenient high-traffic sites; selling a wide selection of food, drinks, tobacco, grocery and household essentials; number of SKUs ~2-8K	 884
TT	 Traditional Trade		<p>Outlets, kiosks, markets and autosshops with over-the-counter service; mainly independent small grocers or Soviet-era heritage outlets in smaller cities and villages.</p> <p>Belkoopsoyoz union of regional cooperatives accounts for a 10% market share in grocery retail; de facto it does not have centralized governance: procurement, sales and supply chain are managed at the regional level</p>	 ~14K

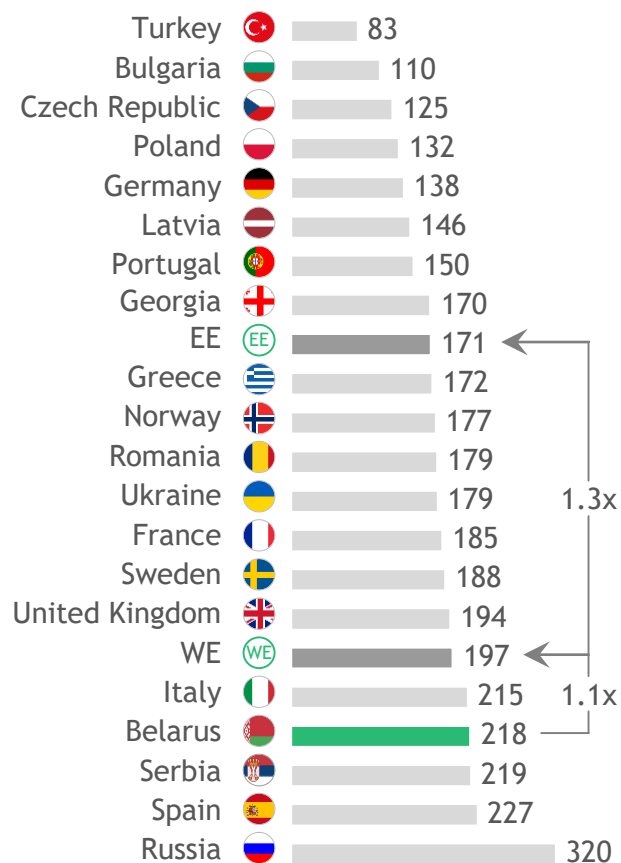
Note: There are no discounters in Belarus (defined as limited assortment self-service stores (up to 3,000 SKUs, for hard discounters up to 1,500 SKUs) with a high share of private label products (above 50% share of assortment), selling area up to 1,500 m² (average 600-800 m²); low level of service & low price positioning)

Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Planet Retail, BCG market model

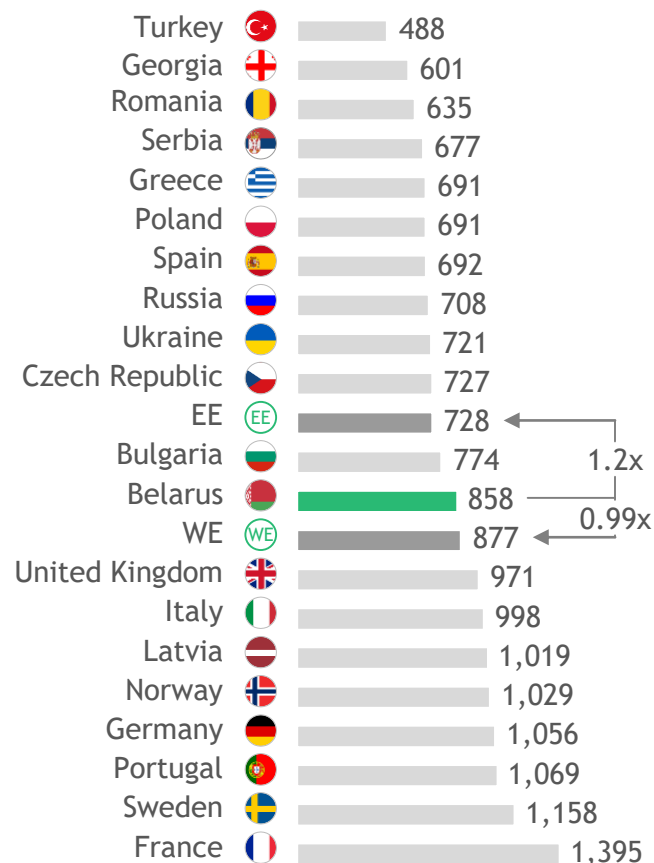


Outlet size in Belarus is larger for convenience and smaller for hypermarkets, versus European averages

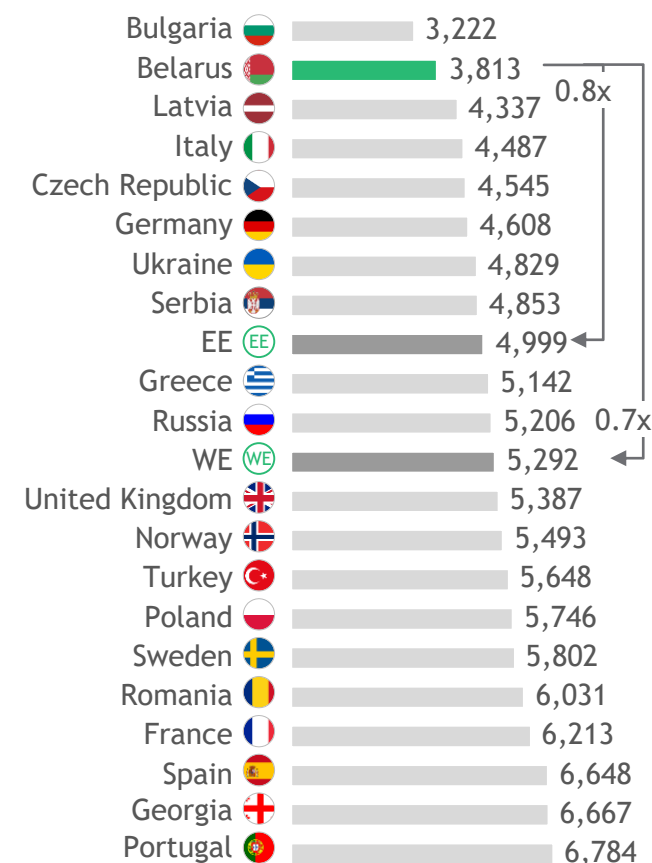
Convenience, average outlet size (m², 2017)



Supermarket, average outlet size (m², 2017)



Hypermarket, average outlet size (m², 2017)

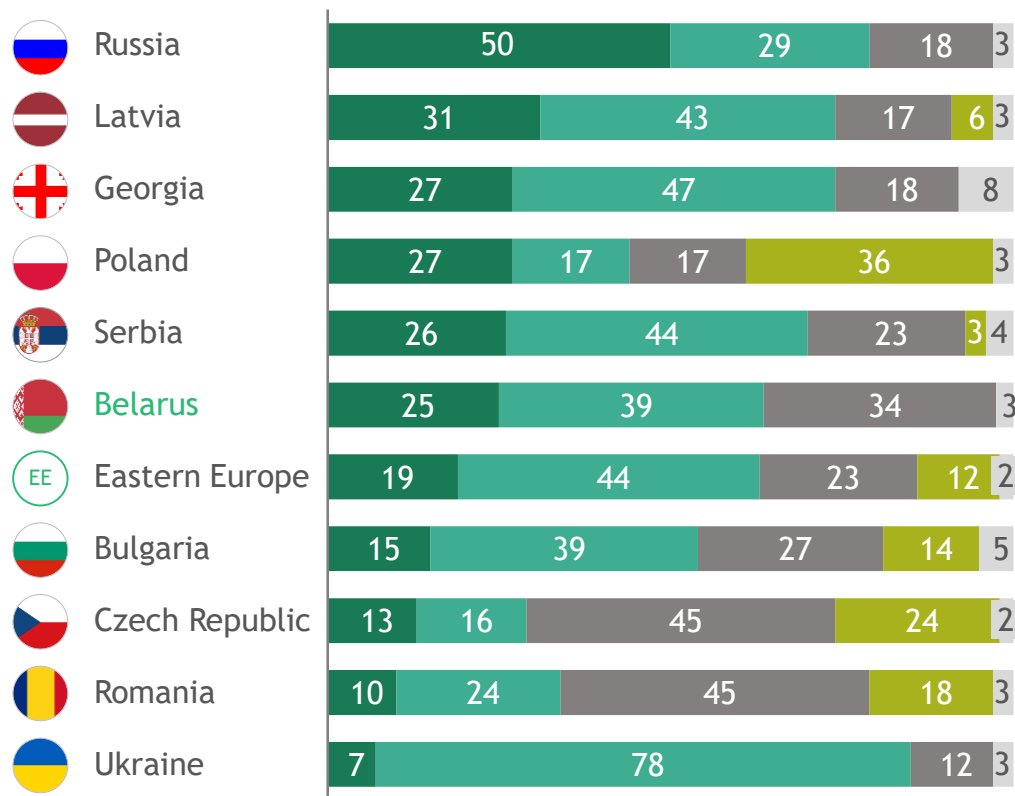


Note: For all countries except Belarus data is from Euromonitor. For Belarus, analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. Source: Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model

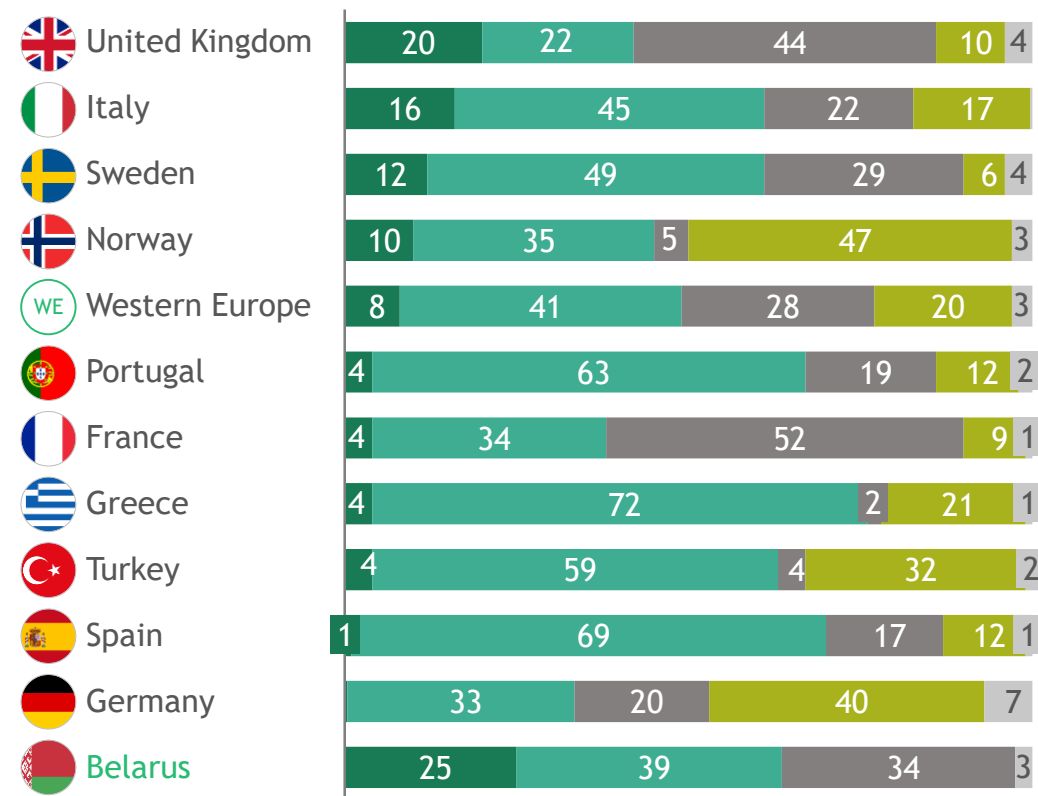


Format distribution in Belarus is similar to Serbia and Latvia

The discounter¹ format is not present in Belarus



Share of MT Grocery Sales (% , 2017)



Share of MT Grocery Sales (% , 2017)

Convenience² Supermarkets Hypermarkets Discounters Forecourts

1. There are no discounters in Belarus (defined as limited assortment self-service stores (up to 3,000K SKUs, for hard discounters up to 1,500 SKUs) with a high share of private label products (above a 50% share of assortment), selling area up to 1,500 m² (average 600-800 m²); low level of service and low price positioning). 2. Convenience does not include forecourts

Note: For all countries except Belarus data is from Euromonitor. For Belarus, analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews.

Source: Belarus National Statistical Committee, Belarus Ministry of Antimonopoly Regulation and Trade, Euromonitor, Company data, BCG market model; BCG analysis

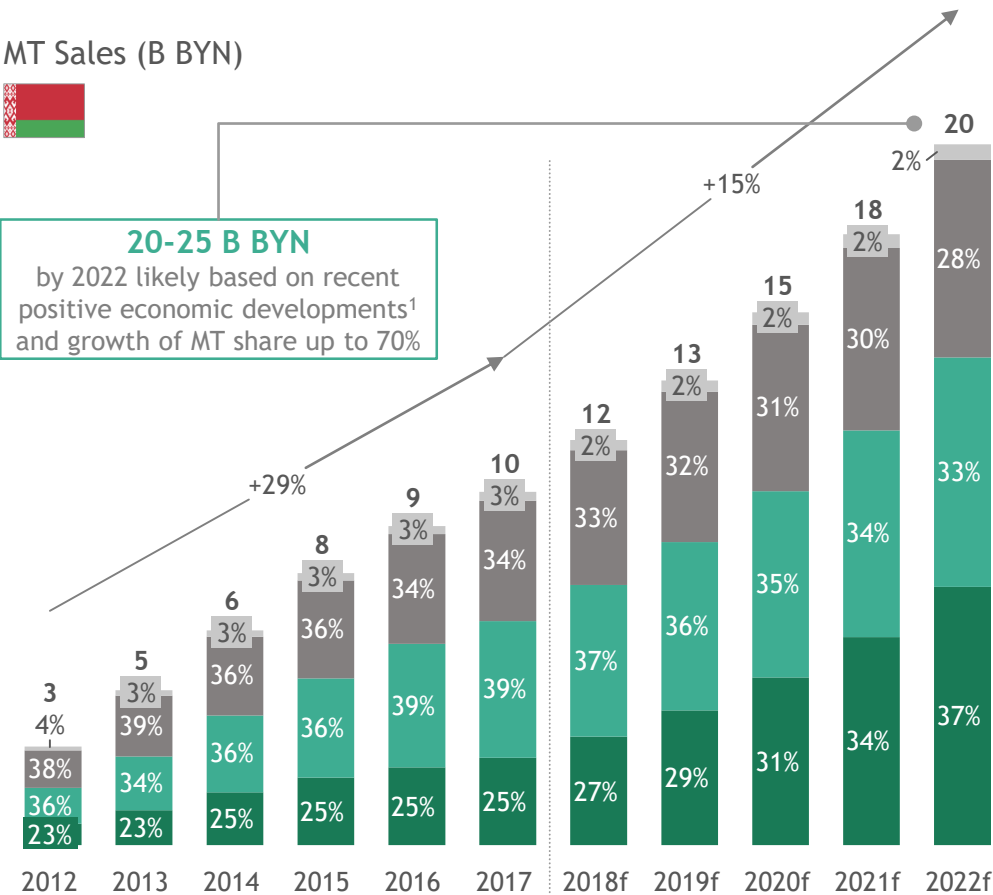


Supermarkets & hypermarkets dominate the Belarusian market, convenience is expected to fuel growth in '17-'22

MT Sales (B BYN)



20-25 B BYN
by 2022 likely based on recent positive economic developments¹ and growth of MT share up to 70%



	Sales CAGR '12-'17	Sales CAGR '17-'22
Forecourts	20%	11%
Hypermarkets	26%	10%
Supermarkets	31%	11%
Convenience	32%	24%



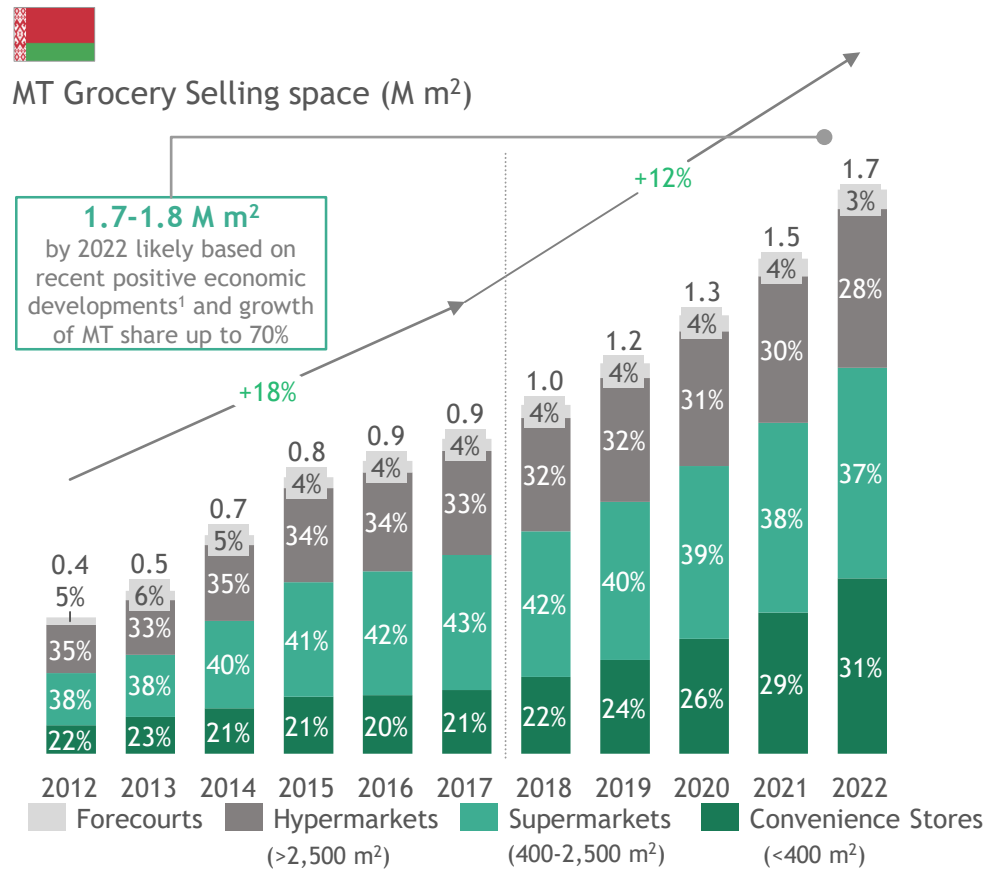
Modern Trade growth expected to be convenience-driven

1. The World Bank Belarus economic update on 19 April 2018
 Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews.
 Source: Belarus National Statistical Committee, Belarus Ministry of Antimonopoly Regulation and Trade, Euromonitor, Company data, BCG market model



Despite Selling Space growth in Modern Trade, Belarus is still lagging behind Europe in formats penetration

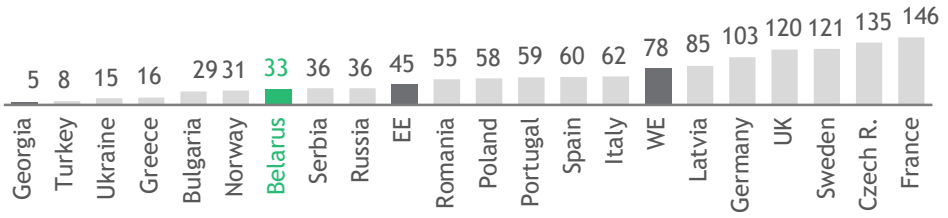
Supermarkets dominate in Selling Space in 2017



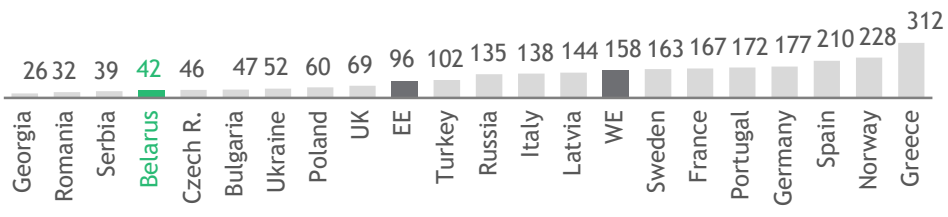
Penetration level below Europe in all formats (m² per K people, 2017)

Middle size formats

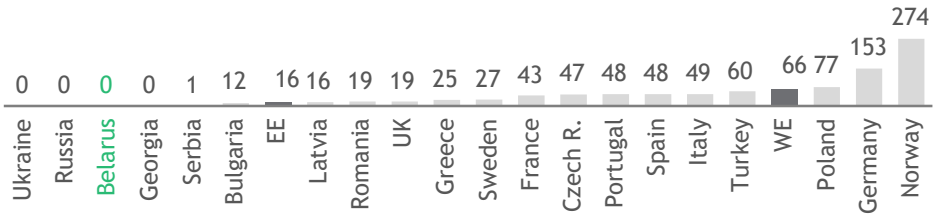
Hypermarkets (>2,500 m²)



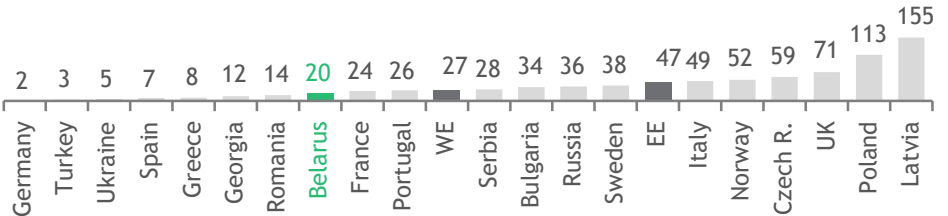
Supermarkets (400-2,500 m²)



Discounters (400-1,500 m²)



Convenience Stores (<400 m²)

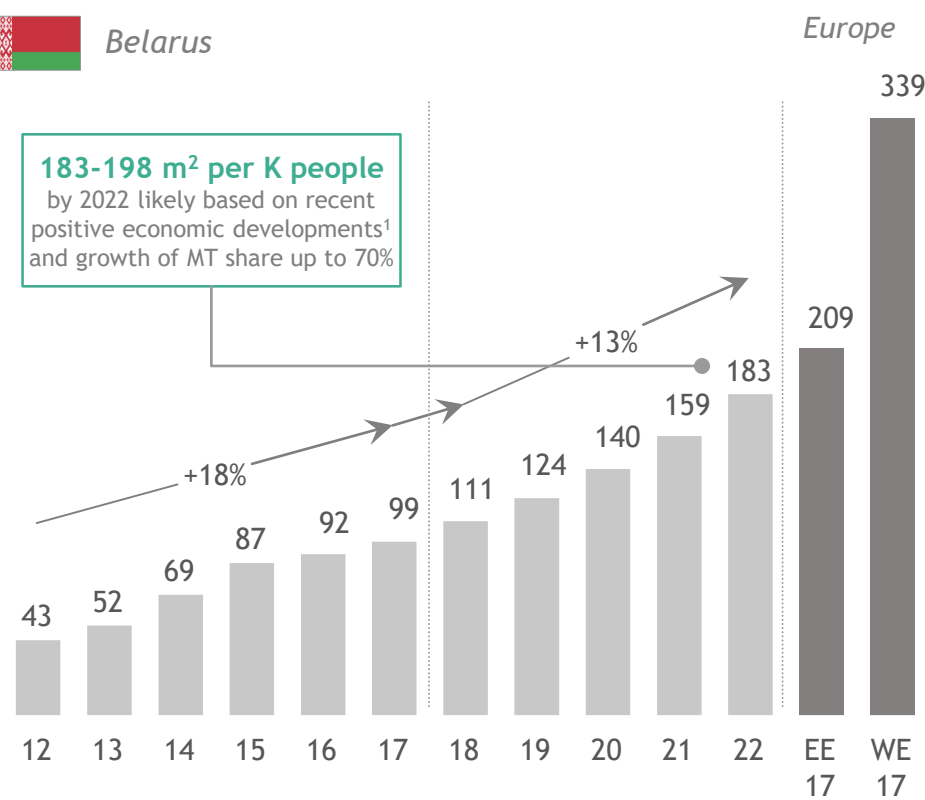


1. The World Bank Belarus economic update on 19 April 2018. Note: For all countries except Belarus data is from Euromonitor. For Belarus, analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews.
Source: Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model

Belarusian Modern Trade penetration is expected to catch up with current EE levels by 2022

Modern Trade penetration per capita is expected to reach EE levels by 2022

MT Grocery Selling space per capita (m² per K people)



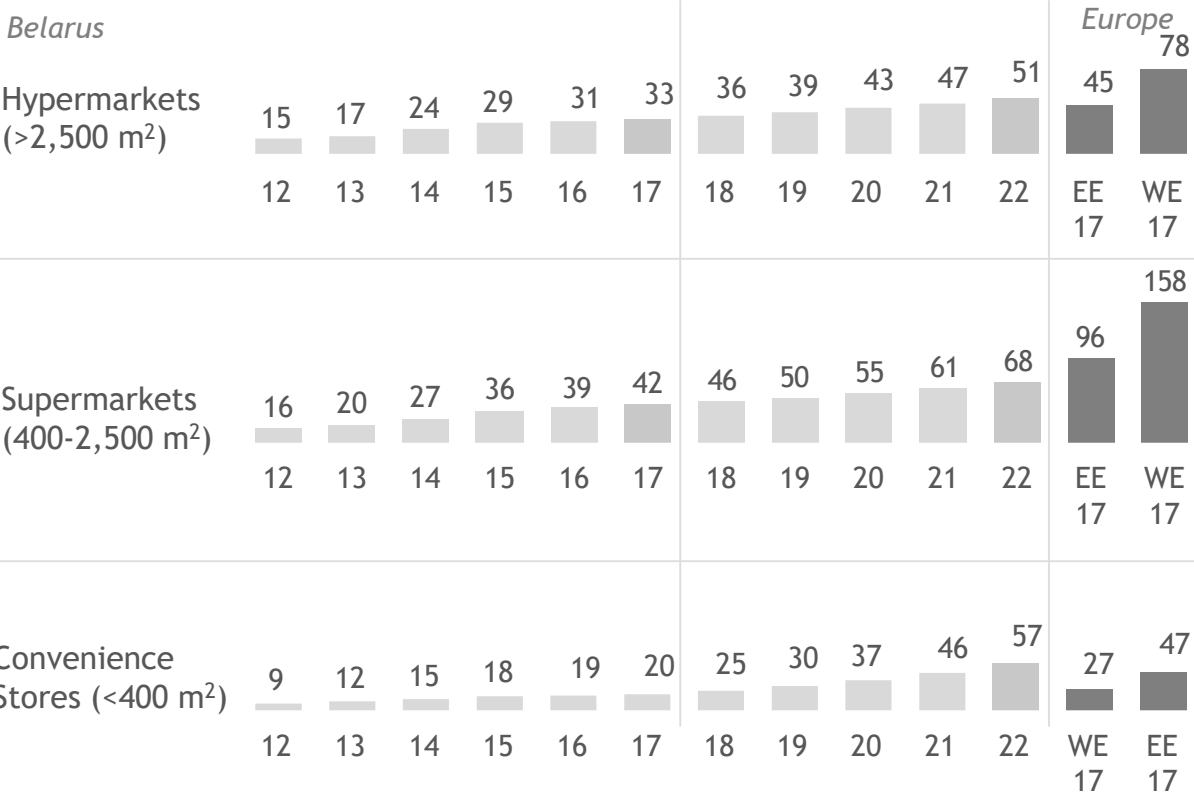
1. The World Bank Belarus economic update on 19 April 2018.

Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews.

Source: Belarus National Statistical Committee, Belarus Ministry of Antimonopoly Regulation and Trade, Euromonitor, Company data, BCG market model

Convenience and hypermarket penetration per capita to be above current EE levels by 2022











MT Grocery Selling space per capita by format (m² per K people)





Top 10 Modern Grocery Retailers in Belarus in 2017

Estimation

		Grocery Retail Revenue ¹ (M BYN, 2017)	Share of MT	No. of outlets (31.12.2017)			Selling Space ² (31.12.2017)	CAGR '12-'17
				Convenience	Supermarkets	Hypermarkets		
	Eurotorg	~4,100	~40%	385	77	38	278	~34%
	Korona	750-800	~8%	6	19	11	71	~27%
	Almi	500-550	~5%	16	32	5	64	~21%
	Vitalur	500-550	~5%	20	25	1	30	~34%
	Rublevsky	450-500	~5%	17	56	1	52	~22%
	Sosedni ³	450-500	~5%	38	36	2	41	~25%
	Gippo	450-500	~5%	0	4	7	38	~17%
	Belmarket	400-450	~4%	26	44	0	39	~31%
	Prostore	250-300	~3%	0	0	5	26	~13%
	Santa	250-300	~3%	48	25	0	24	~33%

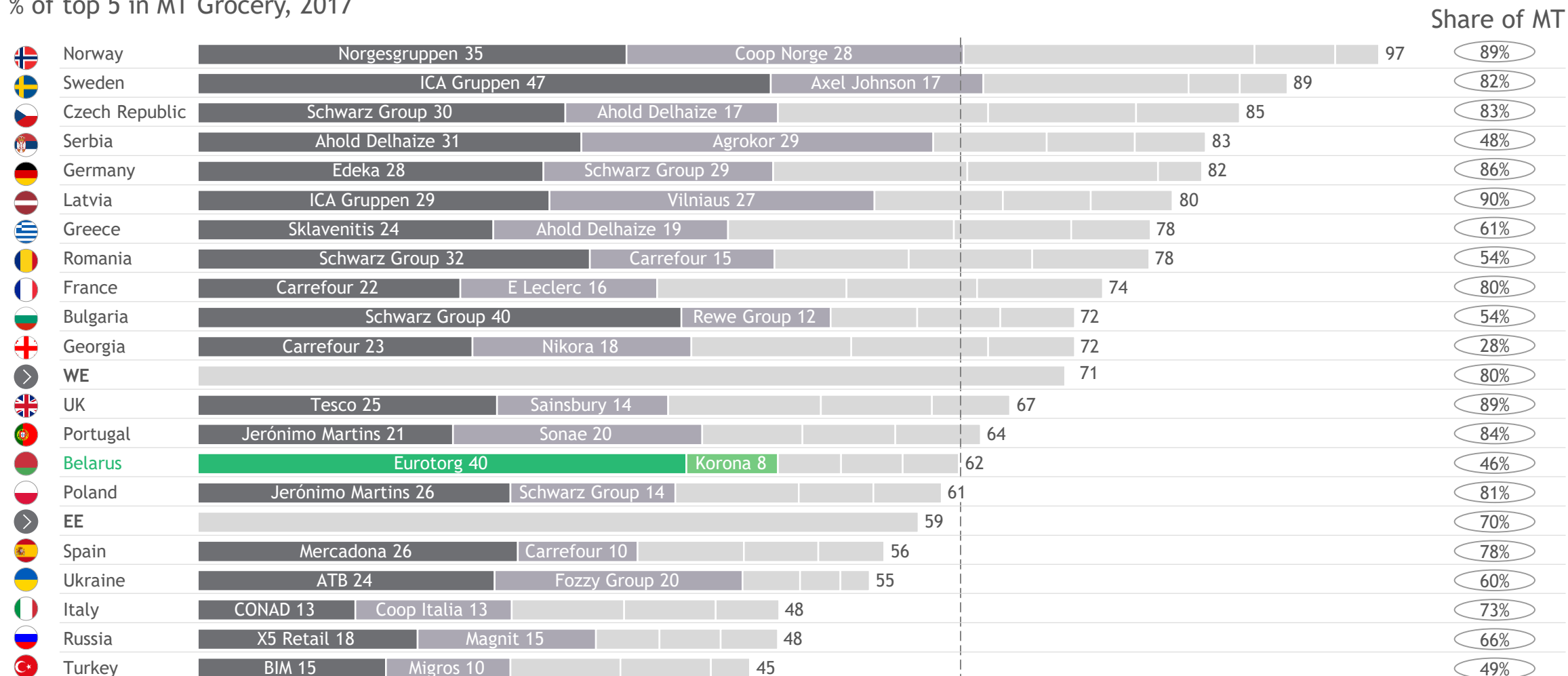
1. Including Sales Tax/VAT. 2. '000 m². 2. Here and thereafter Sosedni's revenue does not include Zorina chain revenue which is a traditional trade chain

Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. Formats distribution: convenience stores - <400 m², supermarkets - 400-2,500 m², hypermarkets- >2,500 m²; Eurotorg stores are categorized based on retailers' own classification from May 2018; Source: Company data, Belarus National Statistical Committee, Belarus Ministry of Antimonopoly Regulation and Trade, Euromonitor, expert interviews, BCG market model



Belarus: top 5 players account for 62% market share, above the EE average

% of top 5 in MT Grocery, 2017



Note: For all countries except Belarus data is from Euromonitor. For Belarus, analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade; Company data, BCG market model

▲
Belarus

The market leader has 5 times the share of no.2 in modern grocery trade

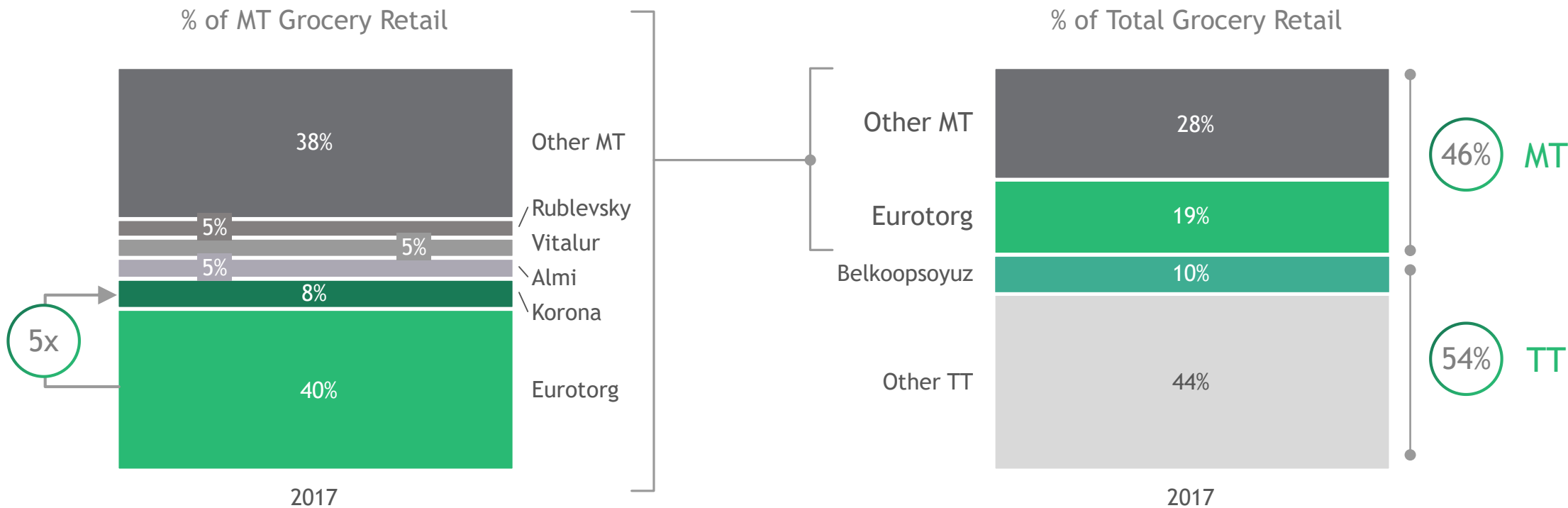
While the biggest traditional player has 10% of the total grocery market

Estimation

No.1 Player in MT has 5 times the share of No.2



Market leader is in MT while No.2 is in TT



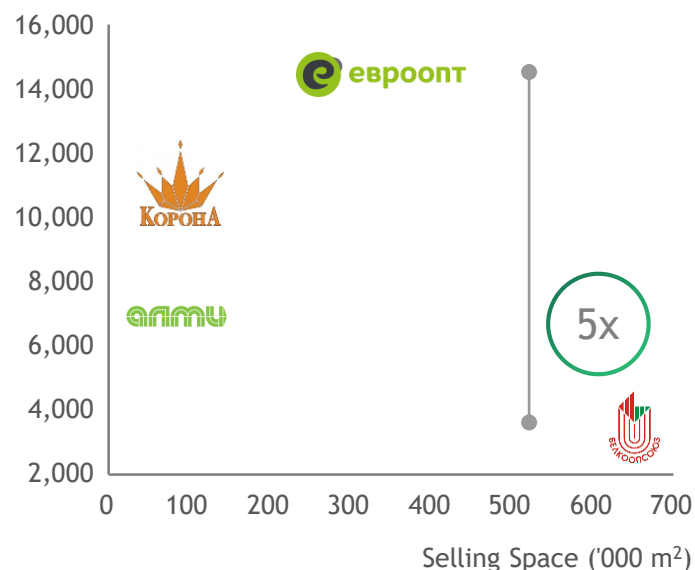
Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews.
Source: Belarus National Statistical Committee; Euromonitor; Company data; Belarus Ministry of Antimonopoly Regulation and Trade; BCG market model

Belkoopsoyuz: a union of 100+ regional organizations, 10% mkt share and >80% of the network in rural areas

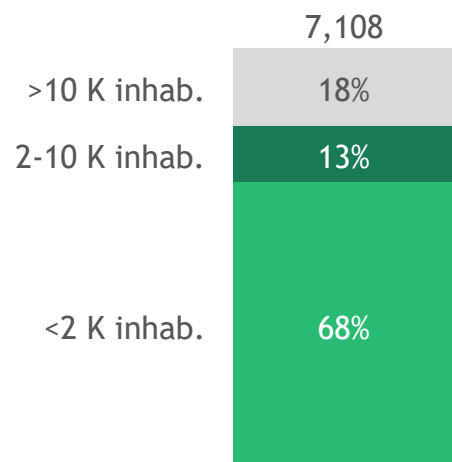
Largest TT player, with productivity ~5x times below market leader

>80% of network in villages and small towns with 0-10K inhabitants

Sales per m² (BYN)



No. of outlets by locality



Belkoopsoyuz: key facts:



No centralized governance: union of 100 + regional organizations

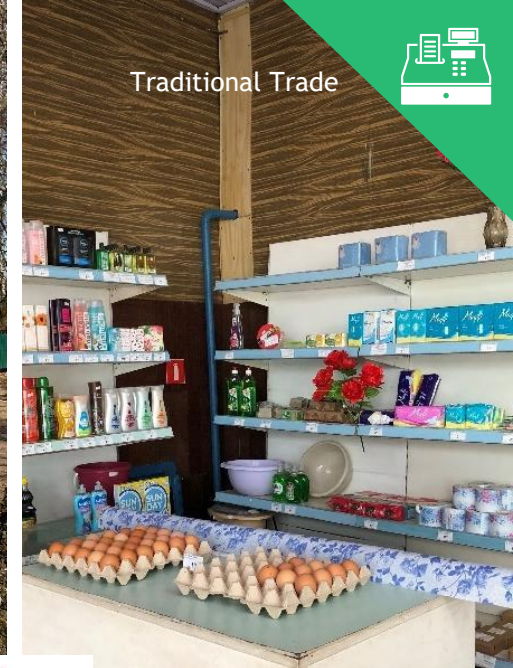
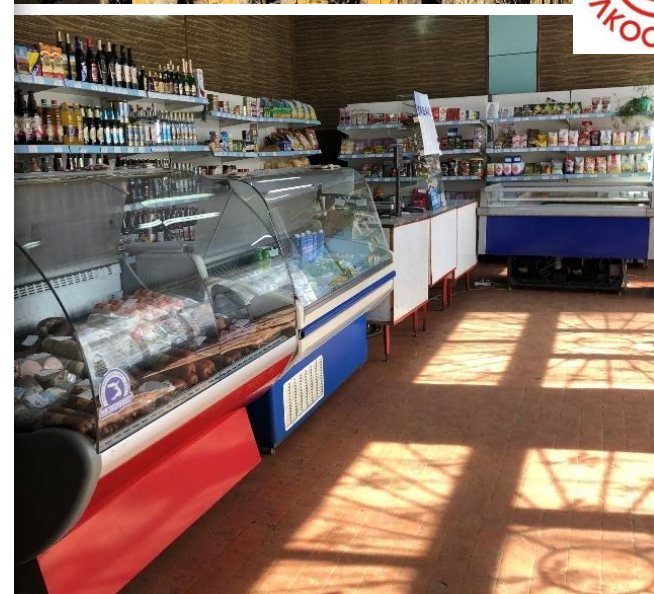
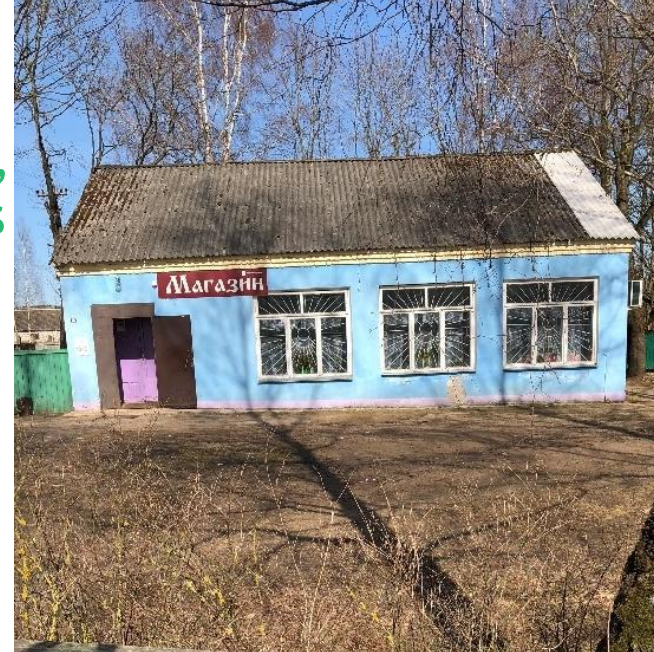


No centralized supply chain & procurement



Worn out outlets: Soviet-era heritage

Note: Belkoopsoyuz (established in 1917) is a government established cooperative that caters to small towns and rural regions; has limited selection of goods, depending on cooperative participants. Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model



Traditional Trade





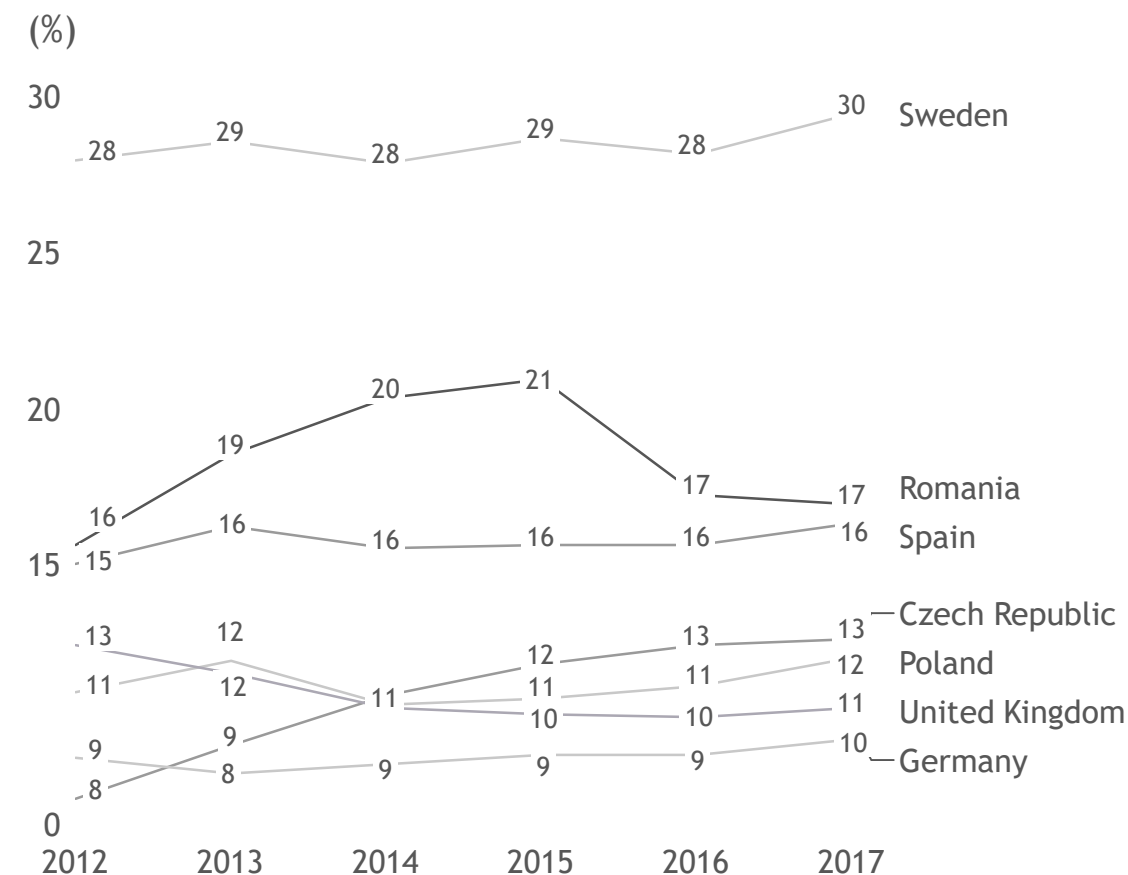
The large gap between the top 2 players in Modern Trade is often sustainable

% of MT Grocery Retail, 2017

Country ¹	Diff btw 1st & 2nd players	Share of 1st player in MT	Share of 2nd player in MT
Belarus	32	40	8
Sweden	30	47	17
Bulgaria	28	40	12
Romania	17	32	15
Spain	16	26	10
Czech Republic	13	30	17
Poland	12	26	14
United Kingdom	11	25	14
Germany	10	28	18

1. Selected examples: out of peer countries, countries with significant market share difference between 1st and 2nd player are displayed. Note: For all countries except Belarus data is from Euromonitor. For Belarus, analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. Source: Belarus National Statistical Committee, Belarus Ministry of Antimonopoly Regulation and Trade, Euromonitor, Company data, expert interviews, BCG market model

MT share difference between first and second player¹



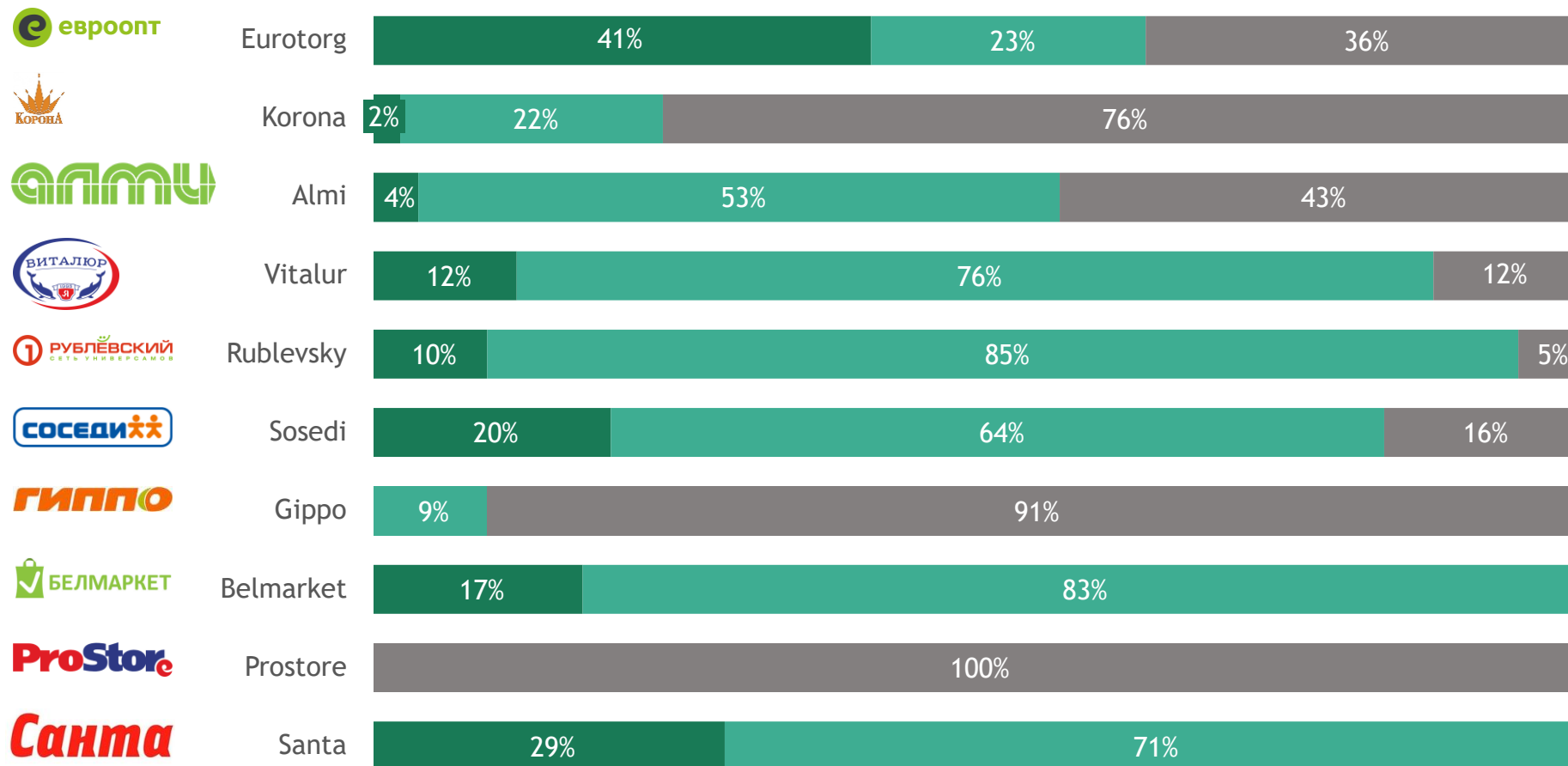


Strong players preference for supermarkets and hypermarkets; Eurotorg as the only multiformat player

Estimation

Company Sales (% , 2017)

Convenience Stores Supermarkets Hypermarkets



Banners



Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. Formats distribution: convenience stores - <400 m², supermarkets - 400-2,500 m², hypermarkets - >2,500 m²; Eurotorg stores are categorized based on retailers' own classification from May 2018; for companies with no explicit data on format sales it is assumed that Sales per m² are the same for each format

Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model



Eurotorg is the clear leader in all formats

Smaller players outside of the top 10 are in the top 3 in the convenience format

Estimation

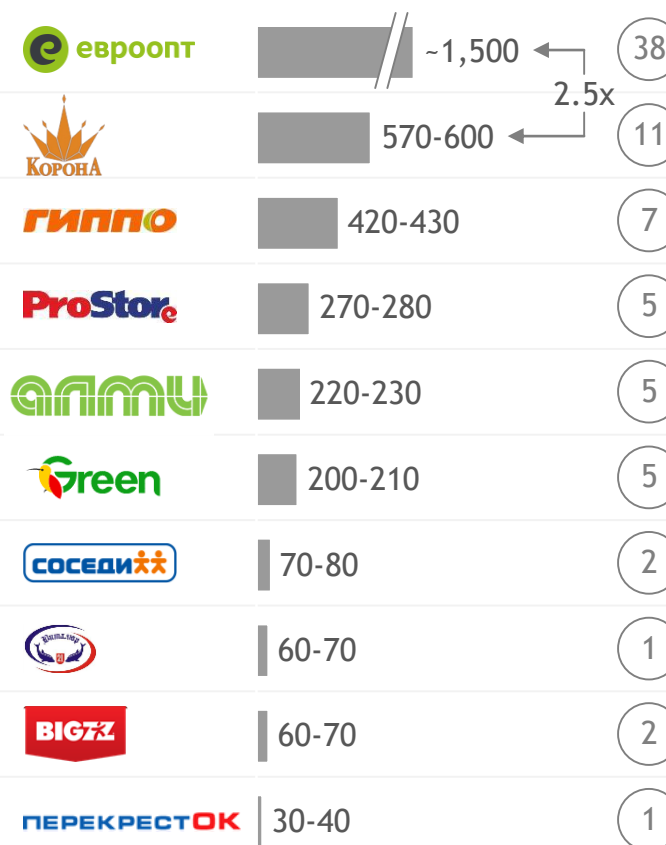
Convenience Sales (M BYN, 2017)



Supermarkets Sales (M BYN, 2017)



Hypermarkets Sales (M BYN, 2017)



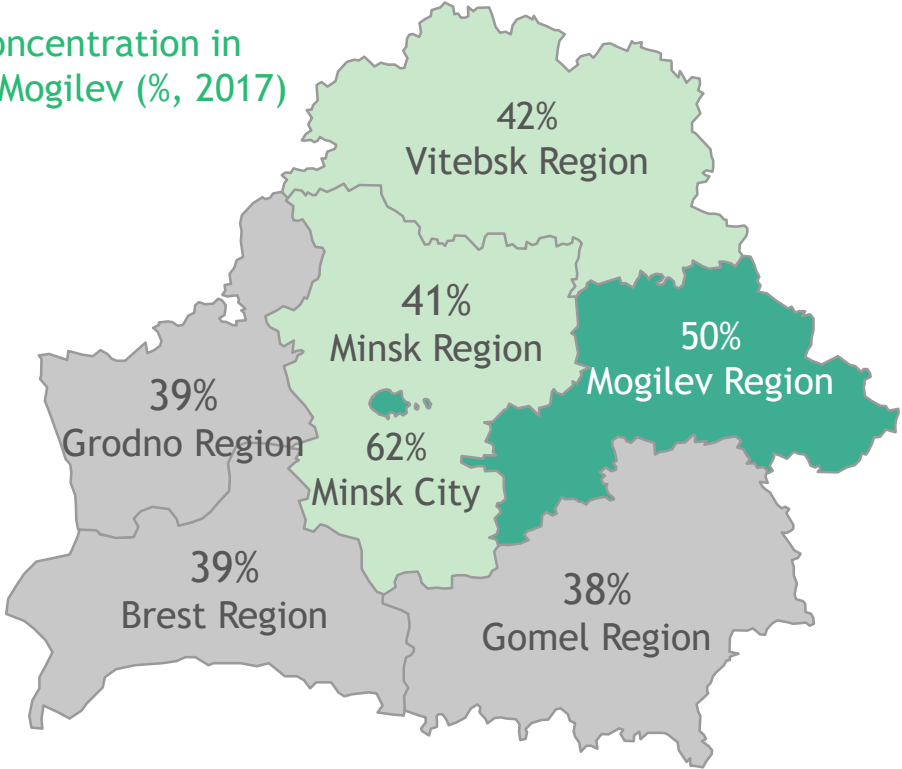
Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. Formats distribution: convenience stores - <400 m², supermarkets - 400-2,500 m², hypermarkets- >2,500 m²; Eurotorg stores are categorized based on retailers' own classification from May 2018; for companies with no explicit data on format sales it is assumed that Sales per m² are the same for each format; Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model

(XX) No. of outlets
(end of period)



Dispersed penetration of Modern Trade at ATU¹ level: 54 out of 129 mini-regions with penetration below 20%

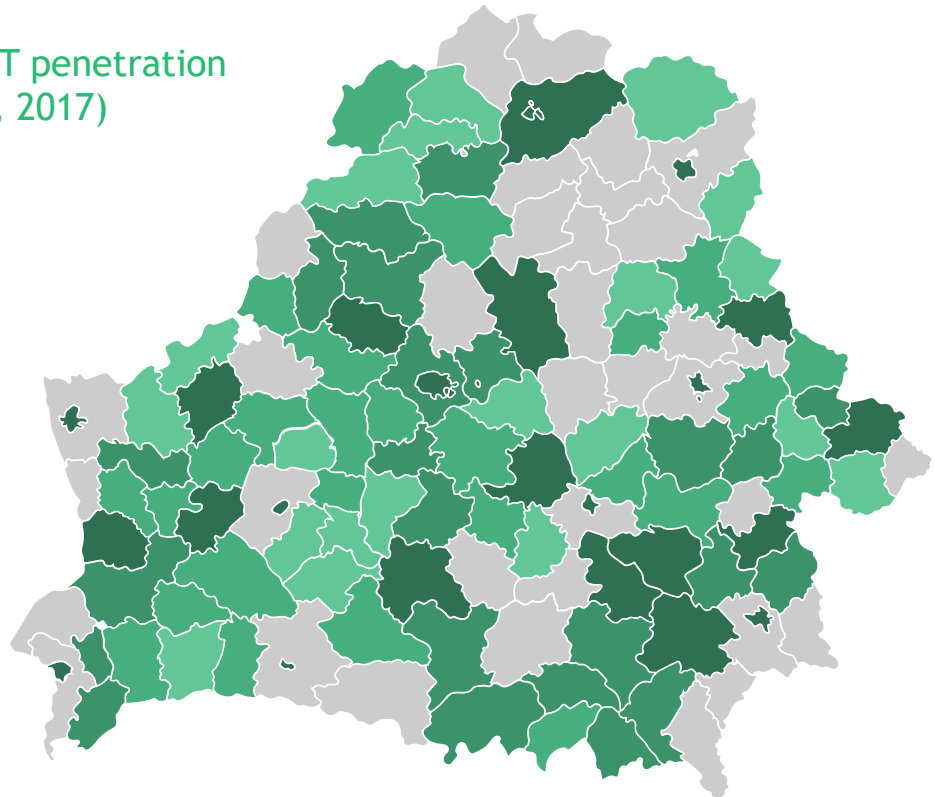
High MT concentration in
Minsk and Mogilev (% , 2017)



Share of MT <40% 40-50% >50%

On ATU level MT penetration
is dispersed (% , 2017)

Belarus
Average
~46%



1-10% 10-20% 20-30% 30-40% >40%

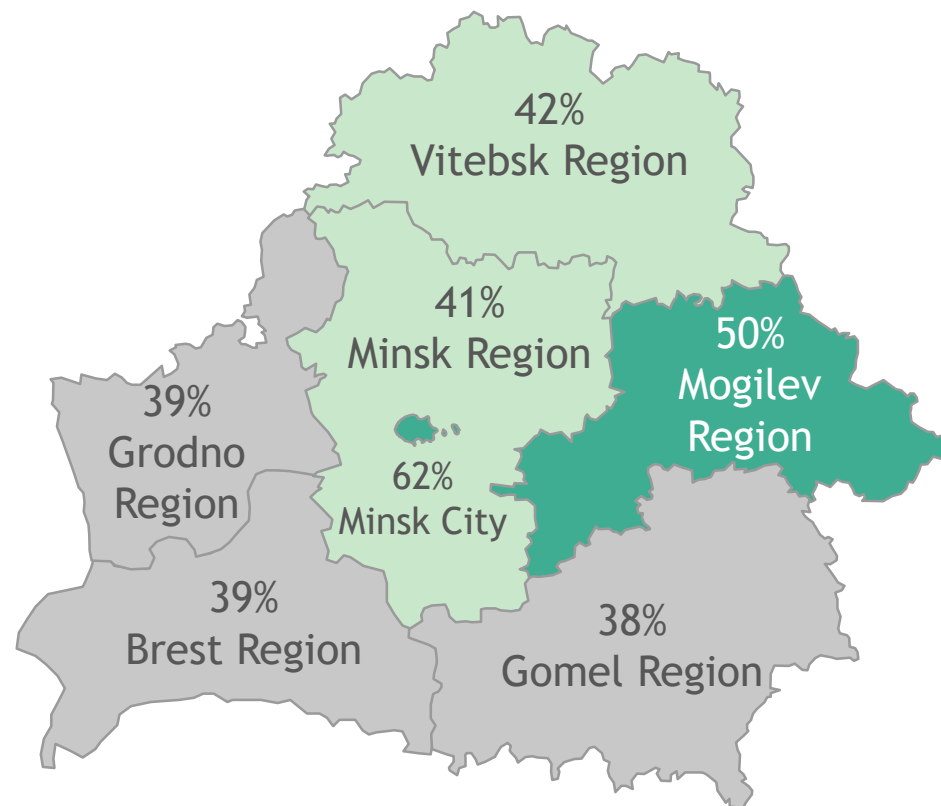
No. of ATU	35	19	25	26	24
Population (M)	1.0	0.5	1.0	2.6	4.5

1. Administrative territory unit (~1600 km² on average, 129 ATU in Belarus for the purposes of anti-monopoly regulation)
 Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews.
 Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model



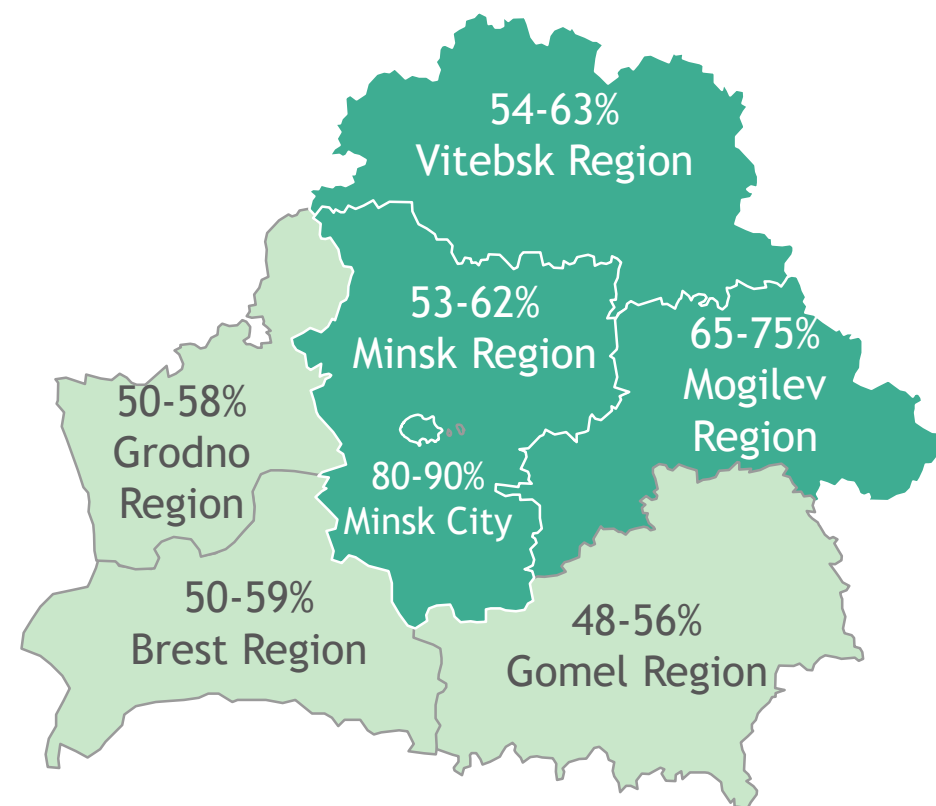
Belarus in 5 years' time: 4 out of 7 regions with >50% of Modern Trade, hitting 80% in Minsk City

2017: 2 out of 7 regions with MT share >50%, share of MT in Belarus ~46%



Share of MT <40% 40-50% >50%

2022: 4 out of 7 regions with MT share >50%, share of MT in Belarus ~60-70%



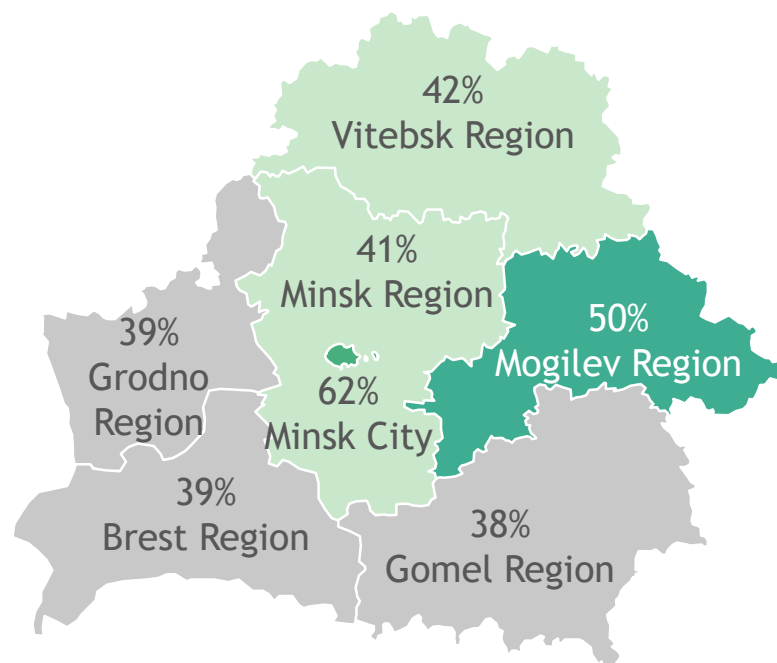
Share of MT <40% 40-50% >50%

Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews.
Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model



Format distribution varies by region, driven by players' activity

Share of MT by Region (% , 2017)



Share of MT

<40%

40-50%

>50%

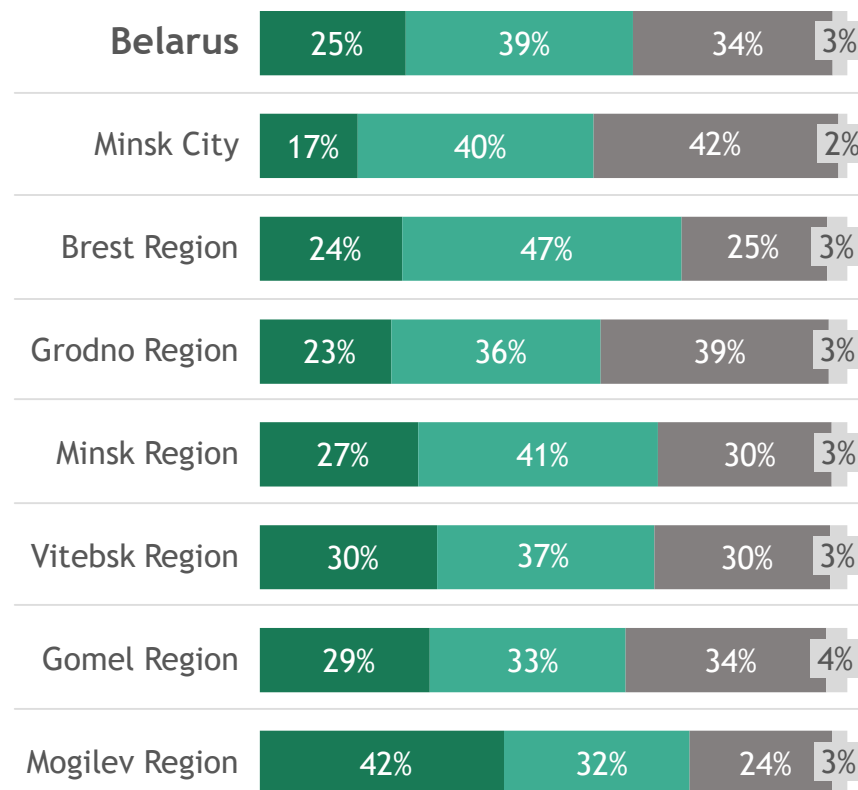
Convenience

Supermarkets

Hypermarkets

Forecourts

Format Share of Sales by Region (% , 2017)



Explanation

More hypermarkets due to Eurotorg, Korona, Gippo, Prostore and Biggz presence

More supermarkets due to Santa presence

Not significantly different from country average

Not significantly different from country average

Not significantly different from country average

Not significantly different from country average

Higher share of convenience stores due to presence of Eurotorg and local chain Kvartal

Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews.
Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model



All top players present in Minsk City

Only Eurotorg has sizeable national presence - in regional centers and regions

Company (No. of outlets, 2017)	Total	Minsk	Minsk Region	Mogilev	Mogilev Region.	Vitebsk	Vitebsk Region	Grodno	Grodno Region	Gomel	Gomel Region	Brest	Brest Region
 Eurotorg	500	82	85	31	41	16	39	23	37	26	54	20	46
 Korona	36	16	6	×	2	5	1	1	×	×	×	3	2
 Almi	53	8	9	×	2	×	2	8	11	2	2	5	4
 Vitalur	46	40	4	×	1	×	×	×	1	×	×	×	×
 Rublevsky	74	54	2	4	1	1	1	5	1	2	2	1	×
 Sosedni	76	51	5	2	3	3	3	×	×	4	5	×	×
 Gippo	11	8	1	1	×	×	×	×	×	1	×	×	×
 Belmarket	70	22	17	18	×	1	×	5	1	×	2	×	4
 ProStore	5	5	×	×	×	×	×	×	×	×	×	×	×
 Santa	73	4	2	1	×	1	1	1	2	2	4	22	33

×

 NO stores

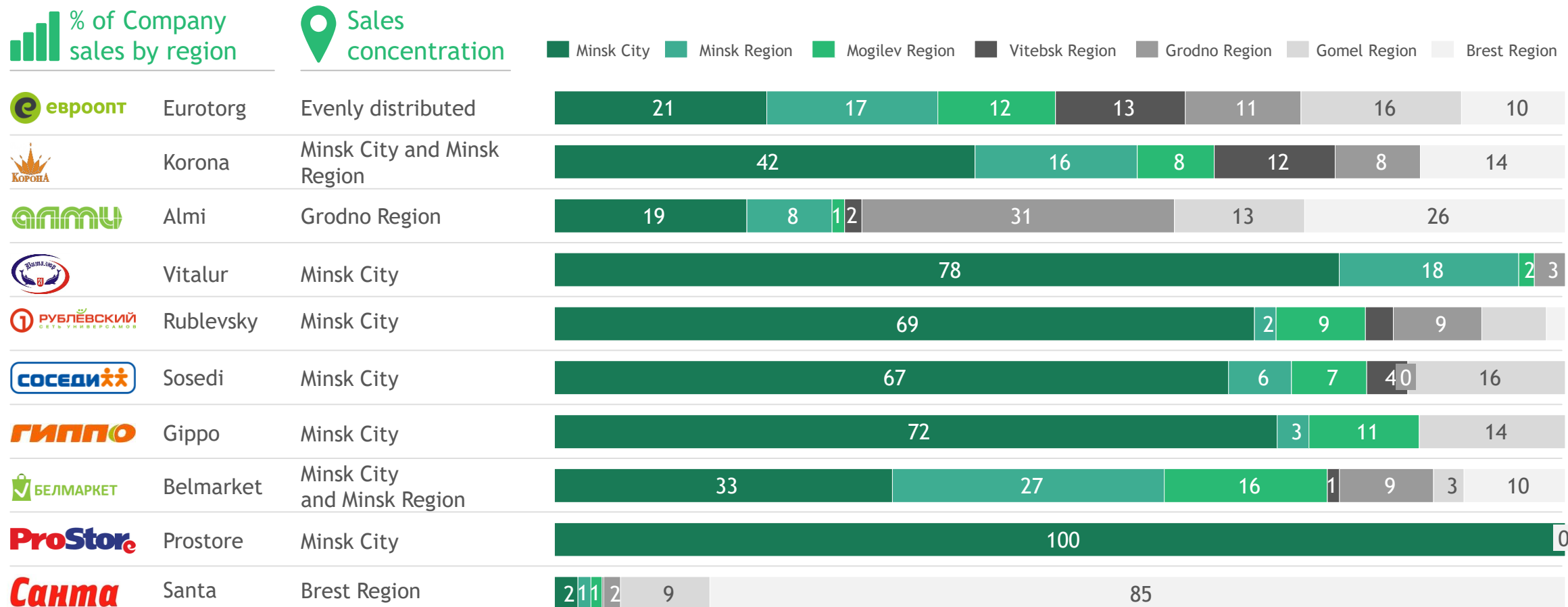
Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews
Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, BCG market model



6 of the top 10 players have >40% of sales concentrated in Minsk city

Eurotorg is evenly distributed across the country

Estimation

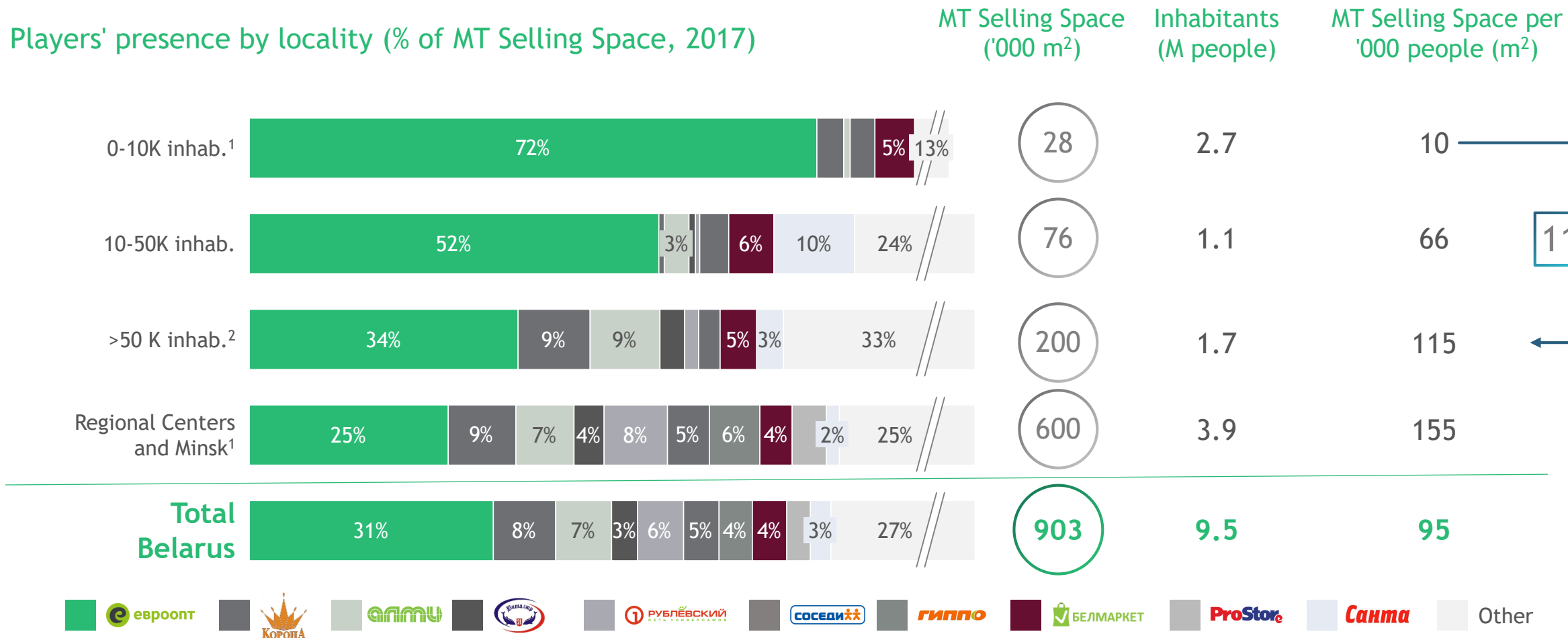


Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model



Modern Trade penetration per capita: 10x gap between villages and larger cities

Eurotorg is the only top 10 player with a sizeable presence in rural areas



1. Minsk suburbs Borovaya and Schomyslitsa are included in Regional Centers and Minsk 2. Excluding Regional Centers and Minsk

Note: Forecourts are excluded. Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG market model

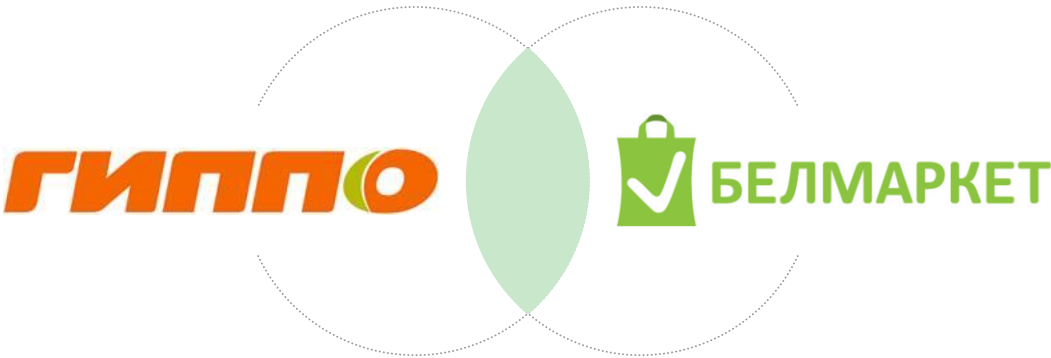


2018: Gippo has become the No.2 player in MT, with its acquisition of Belmarket, driving the level of industry consolidation up to 66%

Estimation



Gippo acquired Belmarket in April 2018¹



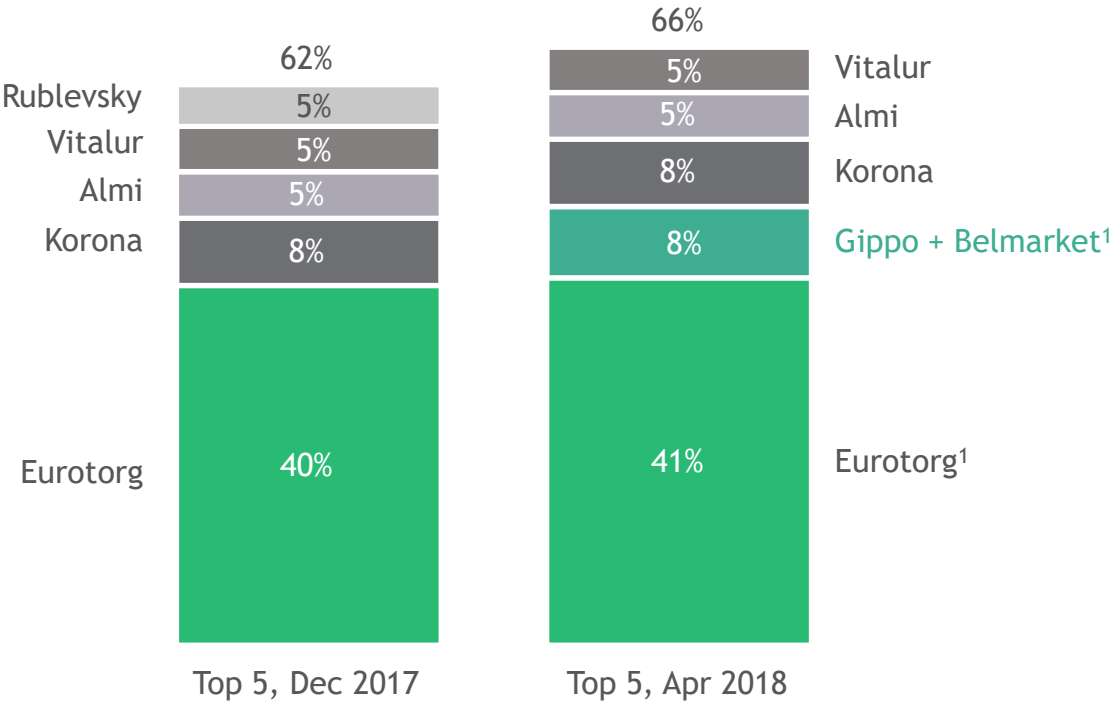
No rebranding planned

Previously Belmarket was a Sosedo M&A target

Some Belmarket stores were leased by Eurotorg¹



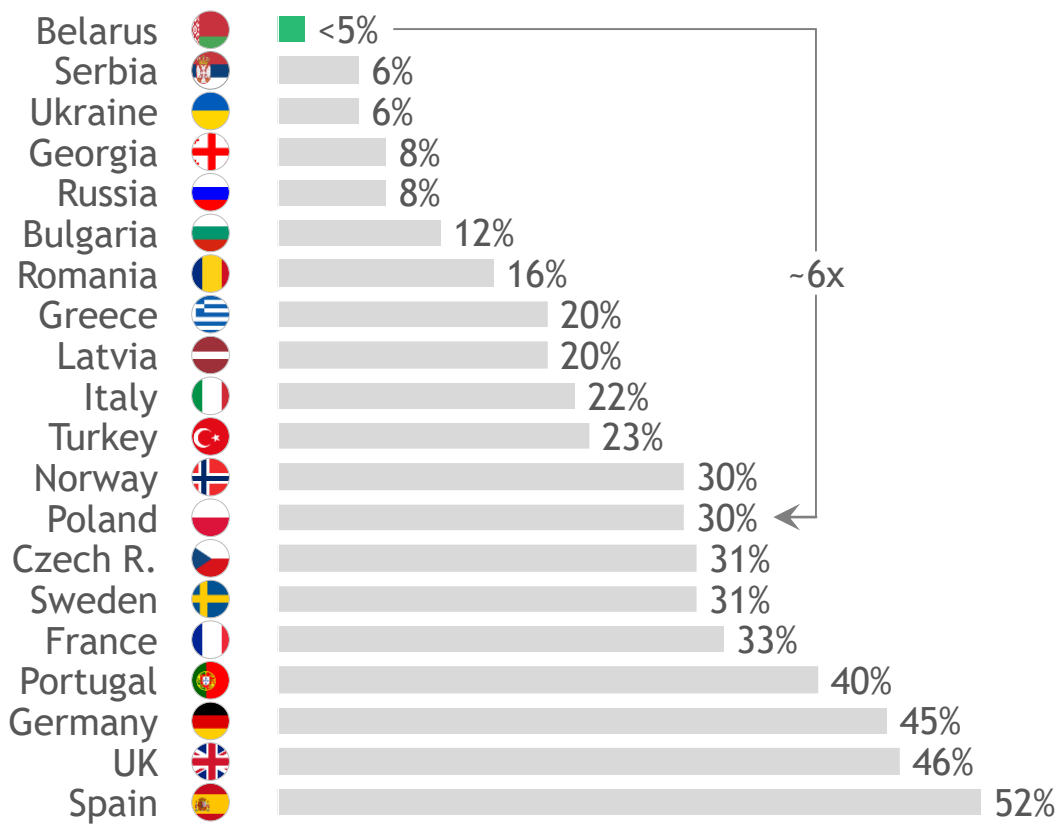
Gippo is becoming the No.2 player, however the 5x-gap between the top 2 players persists



1. It is estimated that after acquisition, Belmarket revenue is split 80%/20% between Gippo and Eurotorg, as owners of 8 former Belmarket shops changed leaseholder to Eurotorg
Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. Source: Belarus National Statistical Committee, Euromonitor, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, expert interviews, BCG market model

Private Label Share in Belarus is far below European countries, although the majority of top players have launched PL

Share of Private Label in grocery sales (%, 2017)



7 out of 10 top grocery retailers with PL

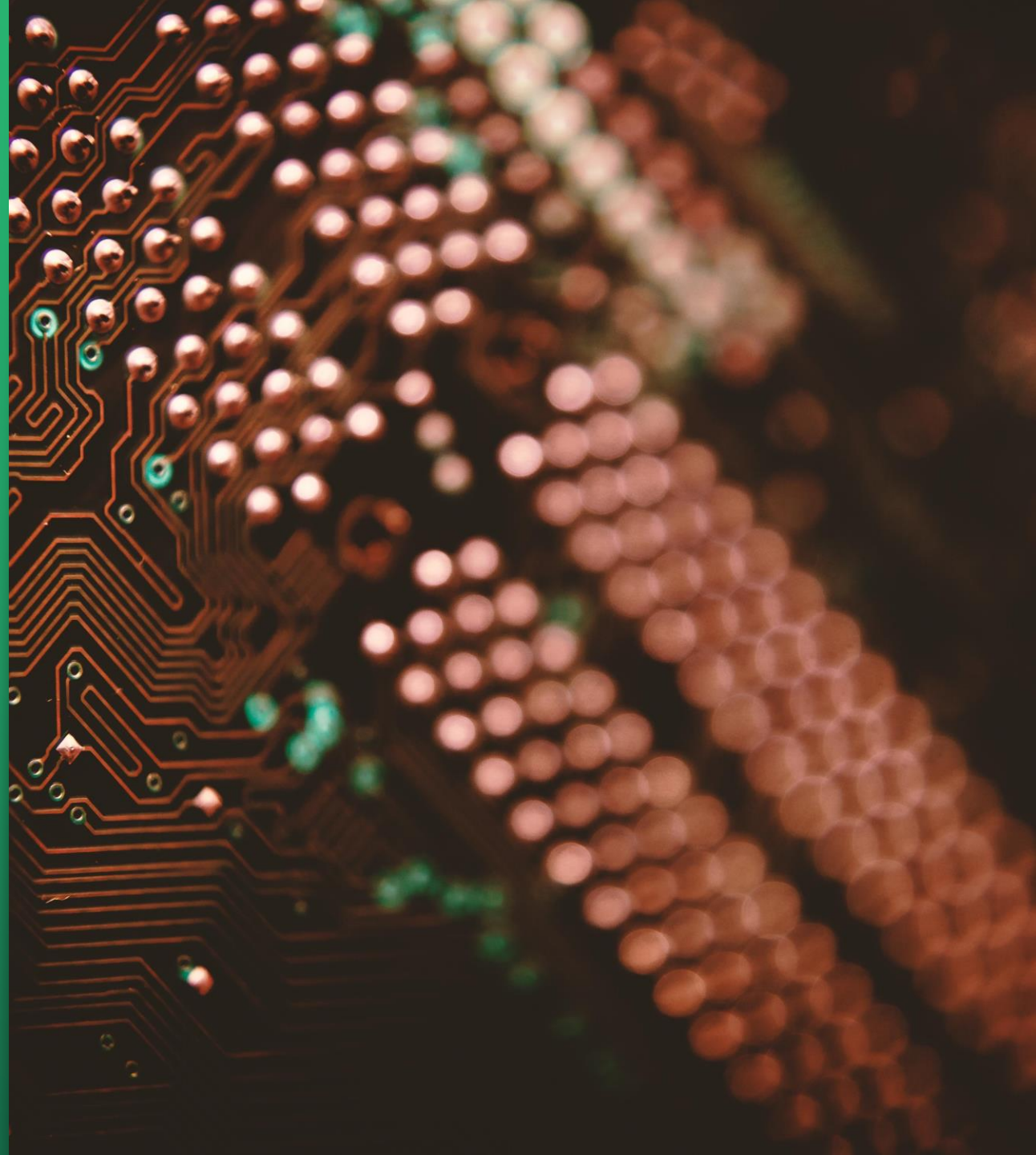
	Eurotorg	✓
	Korona	✗
	Almi	✓
	Vitalur	✓
	Rublevsky	✗
	Sosedi	✓
	Gippo	✓
	Belmarket	✓
	Prostore	✓
	Santa	✗

Private label

No private label

Source: Private Label Manufacturers Association (PLMA), expert interviews, BCG analysis

Belarus: Logistics Overview



Executive summary



Roads and Transportation

- Belarus is a compact European country, with a maximum 640 km distance between its two most distant cities
- Any location in Belarus can be reached within a travelling time of 5.4 hours from the country's center (Minsk)
- With a road network of 87,000 km, Belarus' road density is at the average European level
- 87% of Belarus' roads are paved - more than its neighbors (Russia and Poland)



Warehouse Capacity

- Belarus has a scarce warehouse capacity of ~0.8 million m² and 86 m² per 1000 people, which is 3.5x times below Poland
- As a result, annual A-class warehouse lease rates are ~88 USD per m² - more expensive than in most European countries and twice as expensive as in Poland
- ~44% of Belarus' warehouse capacity is concentrated in 9 logistics centers, mostly in the Minsk Region
- Retailers comprise ~32% of warehouse capacity demand



Grocery Retailers

- Eurotorg is the only player with a sufficient store network in all regions that can afford an efficient supply chain, other players seem to overpay for their supply chain
- 4 out of 5 top Belarus grocery retailers operate their own distribution centers and rely mostly on their own transport; other retailers prefer to lease DC and transport



Belarus Logistics

Key Facts 2017

~87K
km²

Road network

87%

Share of
paved roads

5.4
hours

Time to reach any
point from center

~86
m²

Warehouse capacity
per '000 people

~0.8
M m²

Warehouse Capacity:
Classes A and B

~88
USD

Annual lease rate
per m² in class A
warehouse

~44%

Capacity consolidated
in the top 9 logistics
centers

5 of
top 10

MT grocery retailers
operate their own DC¹

1. Distribution Center

Source: Colliers, Savills, Knight Frank, CBRE, CIA Factbook, World Bank, Country Statistics, Company data, BCG analysis

Belarus is a compact country

Any point within max 5.4 hours'
reach of Minsk



Maximum road distance
between two cities (km)

Latvia		420
Czech Republic		500
Georgia		540
Portugal		600
Belarus		640
Bulgaria		650
Serbia		719
Romania		820
Poland		900
Germany		950
Spain		1,000
France		1,050
Greece		1,100
United Kingdom		1,200
Ukraine		1,300
Italy		1,500
Sweden		2,000
Turkey		2,100
Norway		2,300
Russia		// 10,500

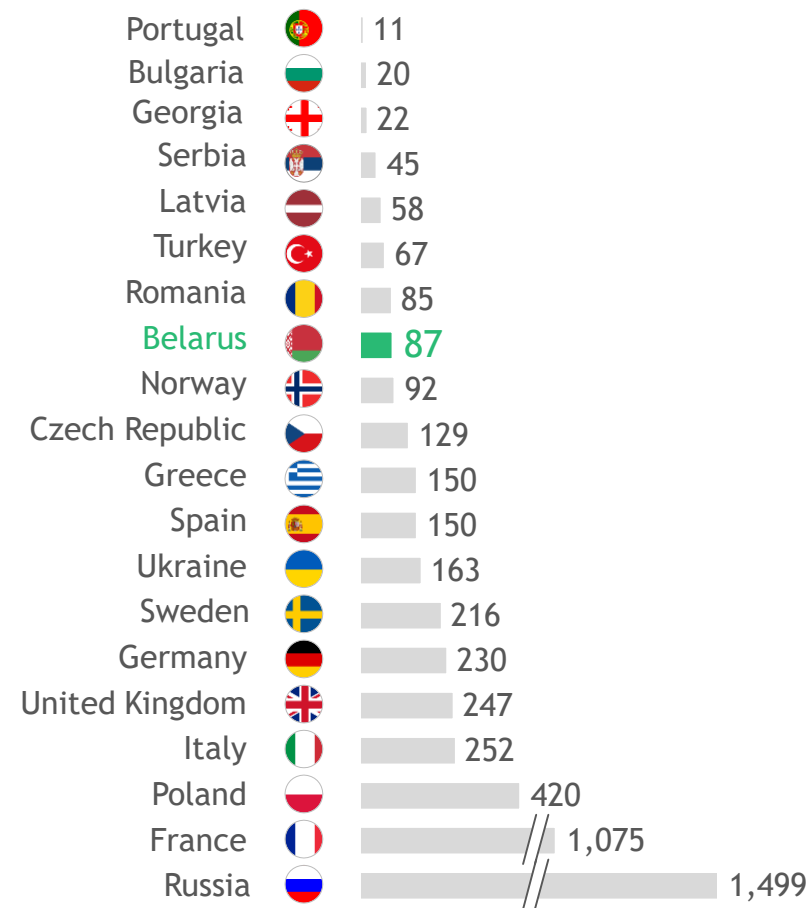
Maximum Shoulder (hours¹)

Latvia		4.3
Czech Republic		4.4
Georgia		4.6
Portugal		4.6
Belarus		5.4
Serbia		5.4
Bulgaria		5.7
Germany		7.0
Greece		7.1
Romania		8.4
Poland		8.6
United Kingdom		9.0
France		9.3
Spain		9.5
Italy		10.8
Ukraine		12.4
Sweden		14.7
Turkey		17.1
Norway		17.3
Russia		// 74.3

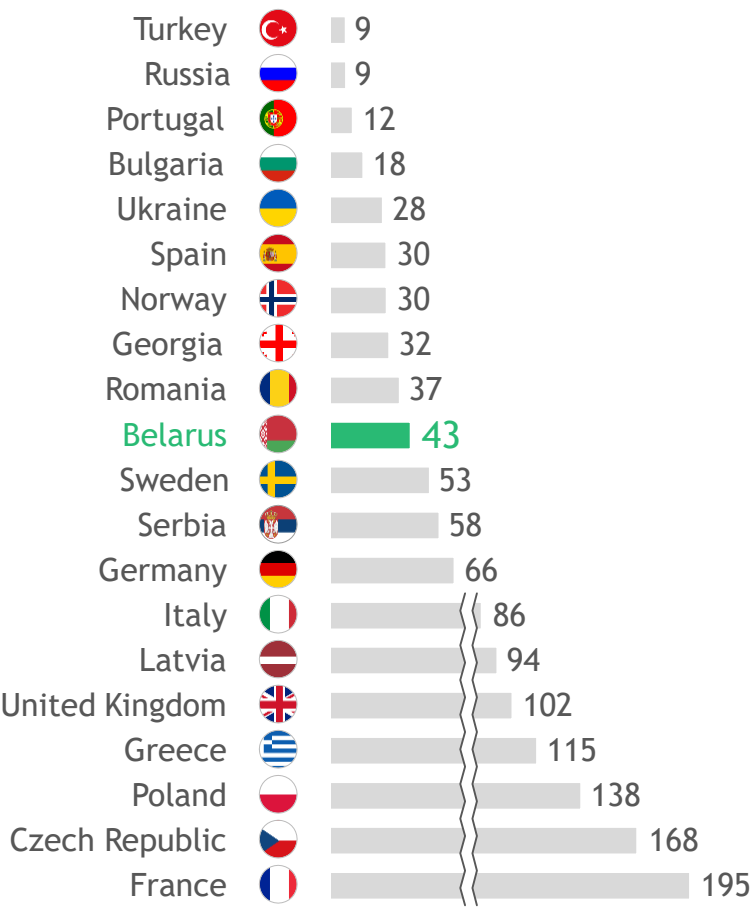
1. Hours to reach the most distant point from center of the country
Source: Colliers, Savills, Knight Frank, Country Statistics, BCG analysis

Road density in Belarus is at the average European level, the share of paved roads is above neighboring countries

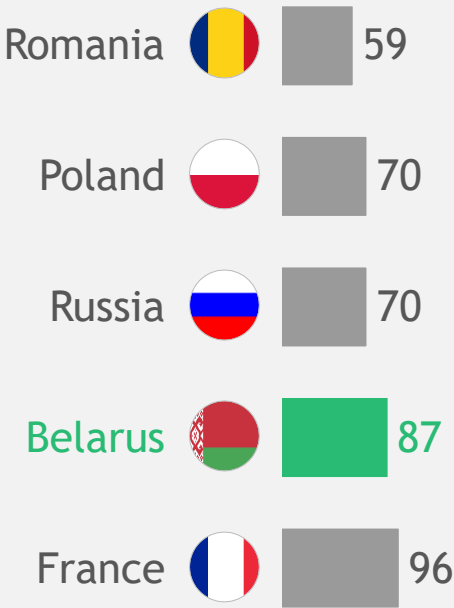
Road network ('000 km)



Road density Index¹



Share of paved roads, %

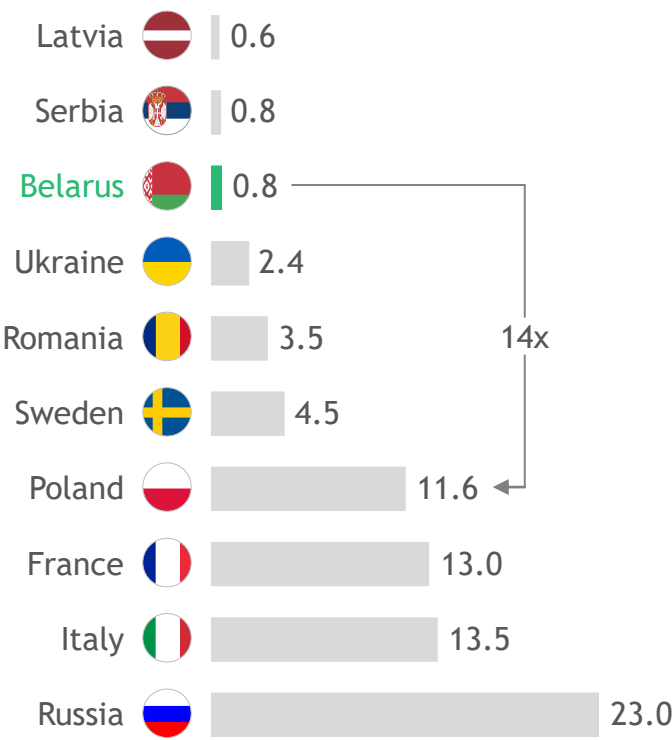


1. Road network per 100 km², km
Source: Country Statistics, CIA Factbook, World Bank, BCG analysis

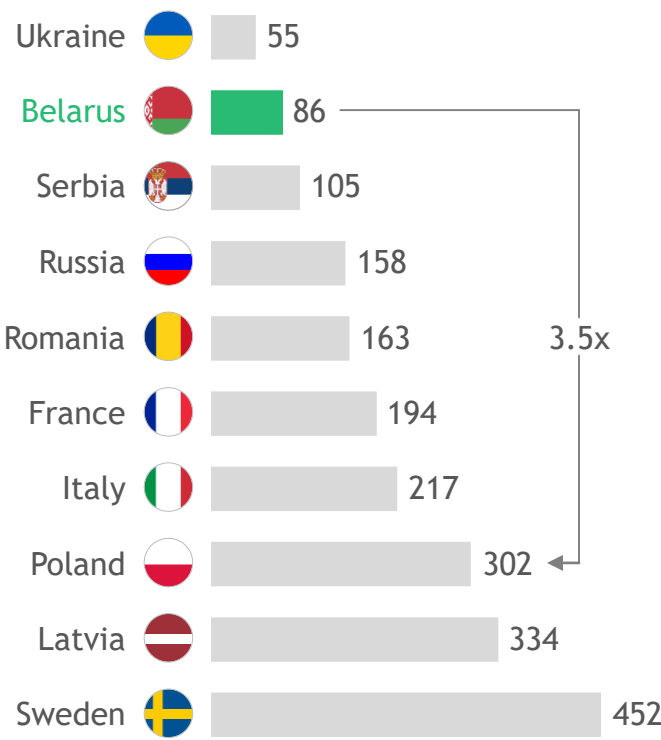


Belarus' warehouse capacity is below European levels - shortage of supply drives lease rates up

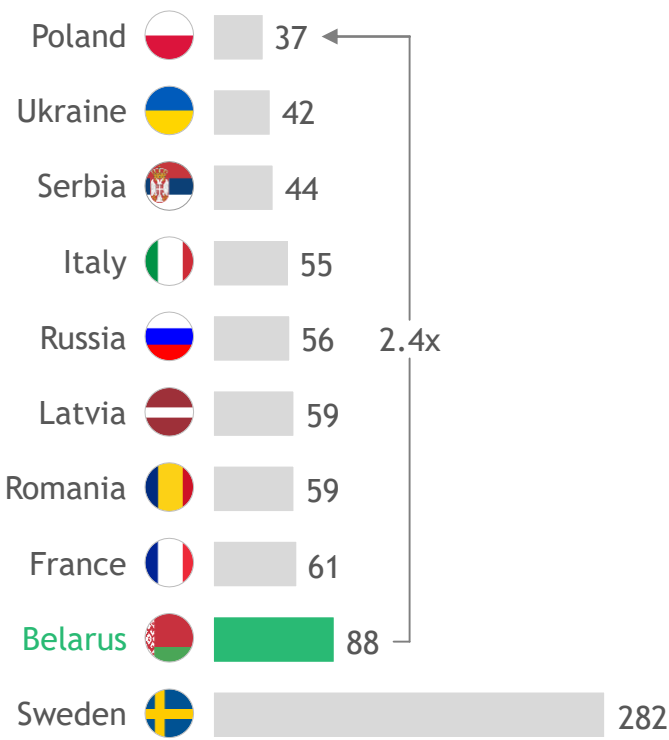
Warehouse capacity¹ (M m²)



Warehouse capacity per '000 people (m²)

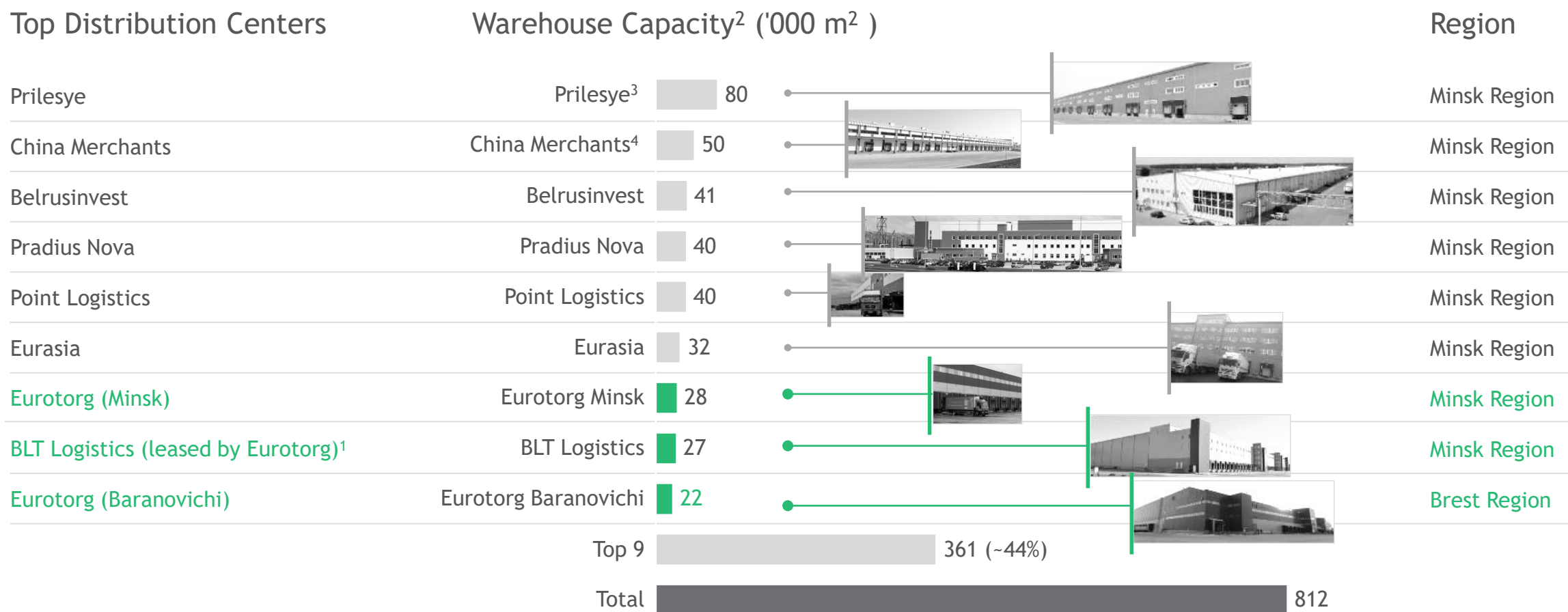


Annual lease rate per m² in Class A² warehouse (USD)



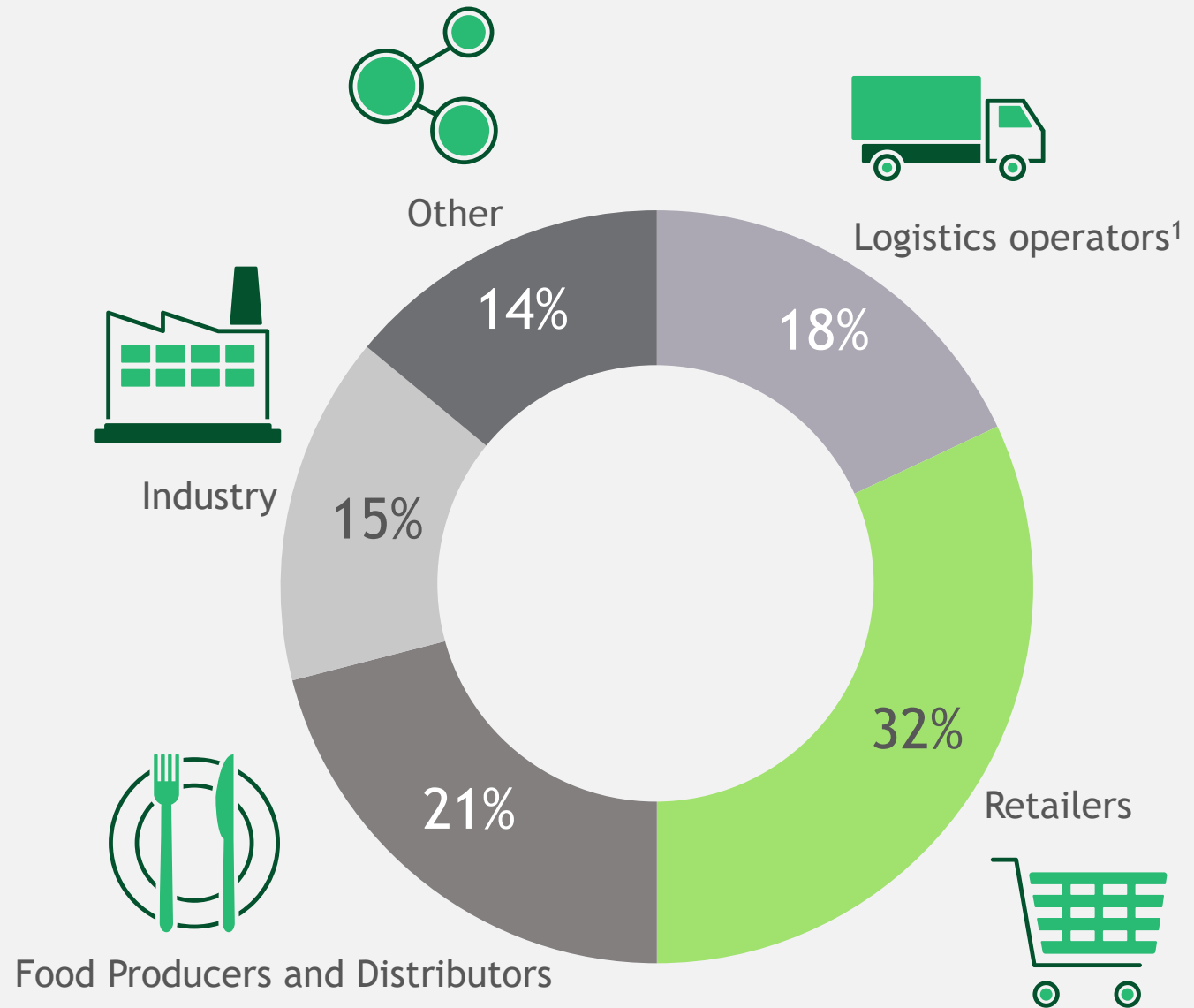
1. Class A and Class B. 2. Class A: site coverage 40-45%; ceiling height - 10+ m; min distance between aisles - 24m; concrete floor with more than 5 tons per m² load ; marshalling area for trucks; ventilation system; typically not older than 15 years
Source: Colliers, Savills, Knight Frank, Cushman Wakefield, CBRE, BCG analysis

Supply: Nearly half of Belarus' warehouse capacity consolidated in top 9 logistics centers, mostly in Minsk region; Eurotorg operates 3 of them



1. Including cold storage. 2. Class A and Class B. 3. ~30, 000 m² of Prilesye capacity is leased by Tut I Tam Logistics. 4. ~15,000 m² of China Merchants capacity is leased by Eurotorg
Source: Colliers, Savills, Knight Frank, Company data, MITSO, BCG analysis

Demand: Retailers form one-third of warehouse capacity demand



1. Logistics operators' share does not include any capacity retailers may be getting through the logistics operators
Source: Belretail, BCG analysis

Eurotorg is the only player with a sufficient store network in all regions that can afford an efficient supply chain

Company (No. of outlets, 2017)	Total country	Minsk Region	Mogilev Region	Vitebsk Region	Grodno Region	Gomel Region	Brest Region
 Eurotorg	500	167	72	55	60	80	66
 Korona	36	22	2	6	1	×	5
 Almi	53	17	2	2	19	4	9
 Vitalur	46	44	1	×	1	×	×
 Rublevsky	74	56	5	2	6	4	1
 Sosedni	76	56	5	6	×	9	×
 Gippo	11	9	1	×	×	1	×
 Belmarket	70	39	18	1	6	2	4
 ProStore	5	5	×	×	×	×	×
 Santa	73	6	1	2	3	6	55

×

NO stores
















XX - No. of outlets below 10

XX - No. of outlets 10 and above

Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space and outlets (MART), company press-releases and expert interviews

Source: Belarus National Statistical Committee, Belarus Ministry of Antimonopoly Regulation and Trade, BCG market model

4 out of 5 top grocery retailers operate their own distribution centers and rely mostly on their own transport

					
	Company	No. of Outlets (2017)	Capacity used as DC ¹ (m ²)	Ownership	Transport ownership
	Eurotorg	500	90,500	✓ Mix of own/leased	✓ Mix of own/leased
	Korona	36	-	✓ Own	✓ Mix, mostly own
	Almi	53	15,000	✓ Own	✓ Mix, mostly own
	Vitalur	46	1,500	✓ Own	✓ Mix, mostly own
	Rublevsky	74	9,000	✓ Leased	✓ Mix of own/leased
	Sosedni	76	5,000	✓ Leased	✓ Mostly leased
	Gippo	11	4,000	✓ Leased	✓ Mostly leased
	Belmarket	70	3,000	✓ Leased	✓ Mostly leased
	Prostore	5	✗	✗ No DC	✓ Mostly leased
	Santa	73	-	✓ Own	✓ Mix, mostly own

1. Capacity includes only Distribution Centers Capacity and does not include any other warehouse capacity

Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space and outlets (MART), company press-releases and expert interviews

Source: Colliers, Savills, Knight Frank, Belarus Ministry of Antimonopoly Regulation and Trade, Company data, BCG analysis

Overview of Government Regulation



Executive summary



Anti-monopoly

- Anti-monopoly regulation may impose restrictions on retailer in case certain market share limit is achieved within ATU or in sales overall or in particular category
- Geo footprint: once retailer exceeds 20% market share in food sales (not grocery) within any ATU¹, no lease/purchase of additional selling space is allowed; yet effectively, growth beyond 20% is achievable despite restrictions
- Sales in villages <2K inhabitants (as of Sep 2017) and on-line sales are not counted in 20% market share limit
- Dominance criteria: in case retailer's market share exceeds 35% of sales overall or in a certain category at regional or country level, its profitability margins might be capped at 10-40%² depending on the category



Assortment sourcing

- Grocery retailers are obliged to sell domestic assortment: minimum number of SKUs are set per category for each outlet size
- Overall, 600-3,350 SKUs per outlet to be of Belarusian origin



Pricing

- Belarus protects local food producers from imports through:
i) temporary pricing regulation for socially important goods coming from EAEU³ and ii) import duties of 5-30% for goods coming from outside EAEU



Commercial terms

- Commercial terms regulation allows for higher flexibility versus CIS countries (especially Russia); back-margin size is not regulated, allowing retailers to balance front and back margin for maximum profitability



E-commerce

- High import duties on parcels from abroad nearly hinder cross-border e-commerce development in Belarus: parcels valued >22 EUR and/or weighted >10 kg are subject to import duties of 30% of the excess amount⁴



Other

- Belarus belongs to a group of countries with high government oversight in retail
- Doing Business ranked Belarus 38 out of 190 countries with top indicators on registering property, dealing with construction permits and enforcing contracts
- Support for entrepreneurship, the digital economy and national food strategy are on recent agendas in Belarusian legislation

1. Administrative territory unit (~1600 km² on average, 129 ATU in Belarus for the purposes of anti-monopoly regulation). 2. Profitability margin cap is calculated as % of COGS (cost of goods sold). 3. Eurasian Economic Union members: Belarus, Russia, Kazakhstan, Armenia, Kyrgyzstan 4. Presidential Decree No.40 dated February 11th, 2016. Source: Belarus regulatory documents, BCG analysis

Belarus belongs to a group of countries with high government oversight in retail

Government oversight in retail

Comments

High



Trade law regulates anti-competitive conduct and retailer-supplier relationships

Common for welfare states with a strong emphasis on social protection
Clear criteria to assess market dominance: maximum market share limits (by geographical regions or some category sales), or overall sales threshold
Regulation on payment terms, pricing for socially important products; restrictions on fees services regarding product sales
Examples: Russia, Kazakhstan, Belarus, Kyrgyzstan, Czech Republic, Hungary, Serbia, China

Medium



Policies to ensure fair competition exist; retailer-supplier relationships are mostly self-regulatory

Establishing fair conduct practices is at core of governmental policies
Mix of statutory and self-regulatory approaches: government heavily relies on the market and provides additional support by arbitrating
Some fees are prohibited, but wording in laws is vague making them harder to enforce
Examples: India, Malaysia, Japan, Germany, Greece, Poland, Turkey, UK

Low



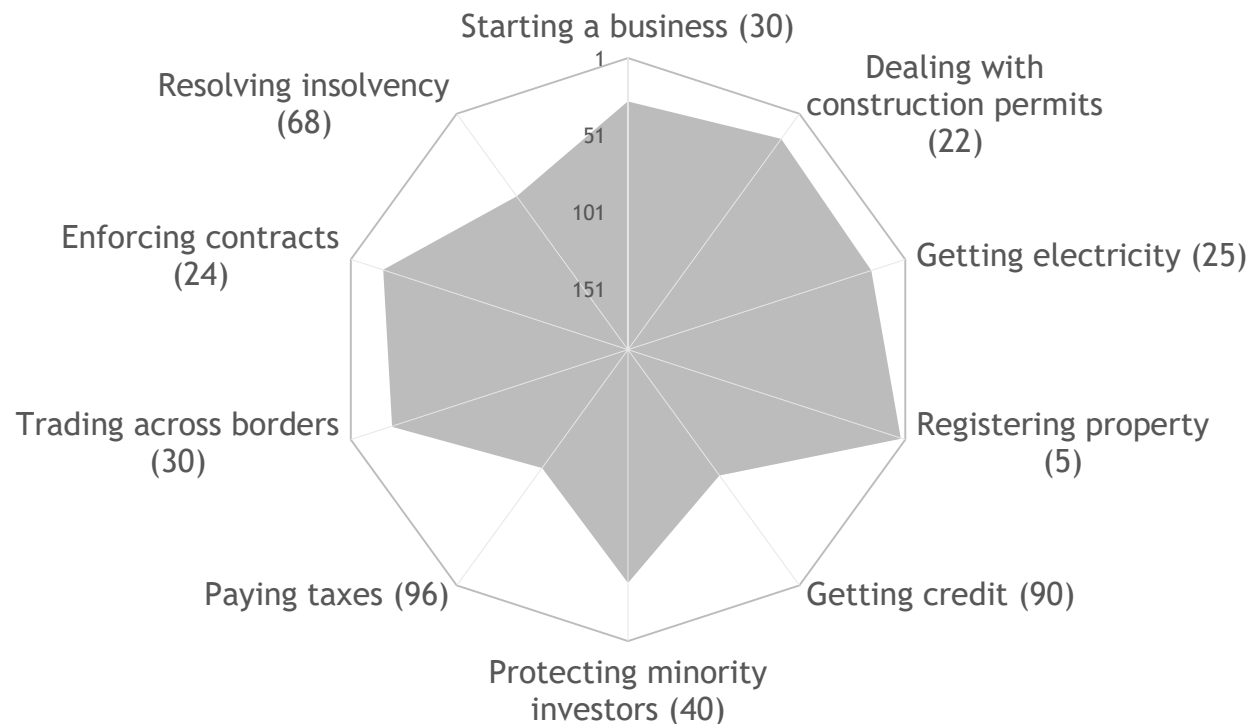
Low to none regulation of retailer-supplier relationships; general guidelines for fair trading exist

Some general guidelines (codes of conduct) for fair competition driven by industry may exist, self-regulation of retailer-supplier relationships
Examples: Finland, Denmark, Spain, Armenia, Italy, Netherlands, Singapore, USA, Argentina, Brazil, Australia

Belarus is progressing in Doing Business rank due to improvements in regulations

Belarus's Doing Business rank has reached the top 20% worldwide in 10 years

The 38th rank of Belarus is based on an average of 10 indicators



Scale: Rank 190 center, Rank 1 outer edge

Sources: Doing Business report 2018 and 2008, Worldbank; BCG analysis

Country	Rank 2018	Rank 2008	Rank change
United Kingdom	7	6	↓
Norway	8	11	↑
Sweden	10	14	↑
Latvia	19	22	↑
Germany	20	20	→
Poland	27	74	↑↑
Spain	28	38	↑
Portugal	29	37	↑
Czech Republic	30	56	↑↑
France	31	31	→
Russia	35	106	↑↑
Belarus	38	110	↑↑
Serbia	43	86	↑↑
Romania	45	48	↑
Italy	46	53	↑
Turkey	60	57	↓
Greece	67	100	↑↑
Ukraine	76	139	↑↑
	Out of 190	Out of 178	







Major regulations influencing the Grocery Retail Industry in Belarus

- 1 Law "On State Regulation of Trade and Catering in the Republic of Belarus" dated January 8th, 2014 No. 128-Z¹
- 2 Presidential Decree "On the Development of Trade, Public Catering and Consumer Services" dated September 22nd, 2017 No. 345²
- 3 Presidential Decree "On the Development of entrepreneurial activities" dated November 23rd, 2017 No. 7³
- 4 Law "On Advertising" dated May 10th, 2007 No. 225-Z⁴
- 5 Law "On Counteracting to Monopolistic activity and competition development" dated December 12th, 2013 No. 94-Z⁵
- 6 Presidential Decree "On Licensing of separate types of activity" dated September 1st, 2010 No. 450⁶
- 7 Resolution of the Council of Ministers "On approval of the rules of sale for separate types of goods and implementation of public catering, and regulations on the procedure for developing and approving of the assortment inventory and assortment list of products for public catering" dated July 22nd, 2014 No. 703⁷
- 8 Resolution of the MART (Ministry of Antimonopoly Regulation and Trade) "On regulation of the minimum prices for alcoholic beverages of more than 28° " dated October 2nd, 2017 No. 52⁸
- 9 Resolution of the Council of Ministers "List of socially important goods subject to price controls by the MART on not more than 90 days in a year" dated January 17th, 2014 No. 35⁹
- 10 Resolution of the Ministry of Economy "On approving the directions on the price (tariff) regulation procedure for goods (work, services) supplied by legal entities and sole proprietors included in the State register of economic entities dominating commodity markets or the State register of natural monopoly actors" dated June 28th, 2007 No. 121¹⁰

1. Закон РБ "О государственном регулировании торговли и общественного питания в Республике Беларусь" 2. Указ ПРБ "О развитии торговли, общественного питания и бытового обслуживания" 3. Декрет ПРБ "О развитии предпринимательства" 4. Закон РБ "О рекламе" 5. Закон РБ "О противодействии монополистической деятельности и развитии конкуренции" 6. Указ ПРБ "О лицензировании отдельных видов деятельности" 7. Постановление Совета Министров РБ "Об утверждении Правил продажи отдельных видов товаров и осуществления общественного питания и Положения о порядке разработки и утверждения ассортиментного перечня товаров, ассортиментного перечня продукции общественного питания" 8. Постановление MART РБ "Об установлении предельных минимальных цен на алкогольную продукцию крепостью свыше 28 процентов" 9. Постановление Совета Министров РБ "Об утверждении перечней социально значимых товаров (услуг), цены (тарифы) на которые регулируются государственными органами, и признании утратившими силу некоторых постановлений Совета Министров Республики Беларусь" 10. Постановление Минэкономики РБ "Об утверждении Инструкции о порядке регулирования цен (тарифов) на товары (работы, услуги) юридических лиц и индивидуальных предпринимателей, включенных в Государственный реестр хозяйствующих субъектов, занимающих доминирующее положение на товарных рынках, и Государственный реестр субъектов естественных монополий"

4 major topics in grocery retail regulations in Belarus

Regulation	Key restrictions	Implications for grocery retailers
 Anti-monopoly regulation	<p>Geographical footprint¹</p> <ul style="list-style-type: none"> 20% market share in food (not grocery) sales set for a mini-region called ATU² Once 20% is reached, a retailer is not allowed to purchase or lease additional selling space within ATU Effectively, growth beyond 20% is achievable despite restrictions <p>Dominance criteria in sales</p> <ul style="list-style-type: none"> 35% market share, overall or by category³, set at regional/country levels In case retailer's market share exceeds 35% of sales, its profitability margins might be capped⁴ 	<p>With a market share above 20% in ATU: further growth in market share for grocery retailers is possible through</p> <ul style="list-style-type: none"> Non-food sales growth leveraging existing supply chain Geo expansion in villages <2K inhab. (not counted in 20% share limits) Online sales (not subject to 20% share limits) Improving efficiency of sales for existing selling space <p>With a market share below 20% in ATU: rapid new stores opening within ATU between annual publications of statistical data on overall food turnover as a legitimate way to grow market share beyond 20%</p> <ul style="list-style-type: none"> No impact on market share growth Profitability margin (calculated as % of COGS)⁴ might be capped at 10-40%, depending on the category at regional or country level (not ATU)
 Assortment sourcing regulation	<p>Grocery retailers are obliged to list domestic assortments</p> <ul style="list-style-type: none"> Min. quantities set per category depending on outlet-size => 600-3,350 SKUs per outlet to be of Belarusian origin 	<ul style="list-style-type: none"> No significant impact for local retailers as customer preference for grocery products remains with Belarusian products (effectively ~45-60% share of assortment and 70-90% share of sales) Strong barrier to entry for international players, especially for hard discounters, with total no. of SKUs ~1-2K with majority of international assortment that should be imported to Belarus
 Pricing intervention and import duties	<p>Protection of local producers from imports</p> <ul style="list-style-type: none"> Min. pricing limits for certain goods from EAEU⁶ Import duties 5-30% for goods from outside EAEU 	<ul style="list-style-type: none"> No significant impact on retailers' top lines, with min. pricing regulation on certain products (sugar, alcohol) Grocery retailers shift towards cheaper Belarusian products; the business case for imports is severely challenged
 Commercial terms regulations	<p>Commercial terms regulation allows for higher flexibility versus CIS countries (especially Russia)</p> <ul style="list-style-type: none"> Back-margin size is not regulated 	<ul style="list-style-type: none"> High flexibility for retailers to balance front and back margin for maximum profitability

1. Law No. 128-Z (1) 2. Administrative territory unit (~1600 km² on average, 129 ATU in Belarus for the purposes of anti-monopoly regulation) 3. Law No. 94-Z (5) 4. Profitability margin cap is calculated as % of COGS (cost of goods sold) 5. Resolution No. 121 (10) 6. Eurasian Economic Union - members: Belarus, Russia, Kazakhstan, Armenia, Kyrgyzstan; Source: Belarus regulatory documents, BCG analysis



Anti-monopoly regulation may impose restrictions on retailers in case a certain market share limit is achieved within ATU or in sales

20%

Once 20% of the total food (not grocery) sales is exceeded, a retailer is not allowed to purchase or lease additional selling space within ATU...

- Set for each of 129 mini-regions called ATU¹
- Belarus National Statistical committee once a year publishes statistical data on overall food turnover per ATU
- Once 20% is exceeded, a retailer is not allowed to purchase or lease additional selling space within ATU until the next publication of statistical data on overall food turnover²
- Effectively, growth beyond 20% is possible through rapid ATU expansion, with new stores opening (between annual publications of statistical data on overall food turnover), non-food sales growth, and improved efficiency of sales for existing selling space



... with notable exceptions for the countryside and on-line sales

Country side

- Market share is not limited and may reach up to 100% in villages with <2K inhabitants
- Eligible villages are subject to approval from local authorities³
- Once 20% market share limit is reached, market share in villages <2K shall not be counted in market share limits=> effectively selling space growth is possible beyond 20% share limits in ATU

Online

- Online sales are not included in the 20% market share limits; limits are applied to stationary grocery stores

35%

Dominance criteria: in case retailer's market share exceeds 35% of sales (overall or in a certain category, at regional or national level), its profitability margins might be capped

- If retailer's sales exceed 35%⁴ market share, overall or in any product category, its position is recognized as dominant
- Profitability margins (calculated as % of COGS⁵) of the players with a dominant market position might be capped at 10-40% depending on the category
- Category and profitability margin caps are defined as: 10% cap for fresh meat and meat products; 15% - for bread, milk, baby food, flour; 40% - for salt; 25% - for others (e.g. fruits and vegetables)
- Sales are monitored by MART at the regional and national level, frequency of monitoring varies at the discretion⁶ of MART

Administrative territory unit (~1600 km² on average, 129 ATU in Belarus for the purposes of anti-monopoly regulation) 2. Law No. 128-Z (1) 3. Decree no.345 (2) 4. Law No. 94-Z (5) 5. Profitability margin cap is calculated as % of COGS (cost of goods sold) as per Resolution No. 121 (10) 6. Resolution of the Ministry of Economics "On approval of the Instruction about the procedure for determination of the dominant position of business entities" dated March 20th, 2015 No. 24. Source: Belarus regulatory documents, BCG analysis



Assortment sourcing regulation: 600-3,350 SKUs to be of Belarusian origin, depending on outlet size

Belarus protects local producers and obliges grocery retailers to list domestic Belarusian assortment according to min. quantities set by each category, depending on the outlet size

Requirements on Belarusian assortment are regulated by the Ministry of Antimonopoly Regulation and Trade (MART) within "Assortment List of Goods"




- List specifies minimum required number of domestic SKUs within each category, for each outlet size
- Latest Assortment list was published in June 2017¹ and includes dairy and bakery products, meat, candies, etc.

Requirements on Belarusian assortment (together with import duties) place almost insuperable barriers to entry of international players who seek to maintain majority of international assortment

- Especially for hard discounters that carry in total 1000-2000 SKUs (Lidl, Aldi, etc.)



1. Resolution of MART dated 27 June 2017 No. 28. 2. Outlets with a size of 400-649 m² are convenience format and outlets with a size of 2500-3999 m² are supermarkets, according to Belarusian regulation (MART Resolution No.27 dated June 27th, 2017)

Source: Belarus regulatory documents, Belarus National Statistical Committee, BCG analysis

			
	Convenience	Supermarket	Hypermarket
Selling area (m ²)	200-399	400-649 ² 650-799 800-999 1000-2499	2500-3999 ² 4000-5999 6000-7999 >8000
Min # of SKUs of local Belarusian origin	610	840 1100 1420 1850	2310 2790 3110 3350
Estimated # of total SKUs	3000 - 8000	15000 - 25000	>30000
Effective share of SKUs of local Belarusian origin (# of SKUs, %)	55-65%	~50-60%	45-55%
Effective share of revenue for SKUs of local Belarusian origin (sales, %)	80-90%	75-85%	70-80%



Belarus protects local food producers through temporary price regulation and import duties

Trade regulation	Regulation affects:	Key characteristics
 Price regulation for socially important goods, alcohol and tobacco	Mostly imports from countries that are members of Eurasian Economic Union ¹	<p>The Ministry of Antimonopoly Regulation and Trade (MART) <u>may</u> intervene in pricing, to protect local producers against imports from the EAEU</p> <ul style="list-style-type: none">Recent example: min prices for sugar are capped <p>Intervention in pricing <u>is NOT</u> extensive</p> <ul style="list-style-type: none">Price regulation possible by MART and by local authorities, for max. 90 days per year²MART may intervene in pricing for "socially important goods"³ (fish, meat and poultry, bread, dairy products, baby food, sugar, pasta, rice, etc.), alcohol and tobacco⁴Local authorities may regulate prices for vegetables (potatoes, carrots, cabbage, and onions)
 Customs duties for imported products	Imports coming from outside the EAEU	<p>Import duties follow the Eurasian Economic Union rules⁵</p> <ul style="list-style-type: none">5-30% import duties, depending on product categoryImport business case for certain categories is severely challenged by import duties

1.Members: Belarus, Russia, Kazakhstan, Armenia, Kyrgyzstan 2. Resolution of The Council of Ministers No. 35 (9) 3. Resolution of The Council of Ministers “List of socially important goods subject to price controls by ATE for not more than 90 days in a year” dated January 27th 2017 No. 81 4. Decree of the President “On Certain Aspects of State Regulation of Production, Turnover and Advertisement of Beer, Alcoholic Products and Tobacco Goods” dated 29 February 2008 No. 3 5. The Common Customs Tariff of the Eurasian Economic Union, approved by Decision No.54 of the EEC Council dated July 16, 2012
Source: Belarus regulatory documents, BCG analysis

Although commercial terms in Belarus are regulated, they still allow for more flexibility than in some CIS countries

Belarus



CIS examples



Margins

Front margin is not regulated²
No restrictions on the size of back-margin

Front margin is not regulated with some exceptions for basic goods
Back-margin in Russia is capped at 5% of cost of goods and it accounts for volume-based bonus, marketing and merchandizing services, delivery service (in case of ex-works pick-up by retailer), etc.

Volume-based bonus

Volume-based bonuses are allowed according to a retailer-supplier agreement in the contract

- Alcohol bonuses are subject to special regulation

Volume-based bonus in Russia is a part of other services (marketing, merchandizing, delivery, etc.) that are capped at 5% of the cost of goods

Marketing, merchandizing, listing fees

Listing fee is prohibited
Marketing and merchandizing are not limited and are subject to a separate contract between supplier and retailer

Listing fee is prohibited in Russia
All services in Russia are capped at 5% of the cost of goods and include volume-based bonus, marketing and merchandizing services, delivery service (in case of ex-works pick-up by retailer), etc.

Penalties

Government regulates penalties for late deliveries³ and deliveries in insufficient volumes (10% cost of any goods not delivered on time) and poor quality (25% cost of any goods delivered that are poor quality); usually subject to supplier-retailer negotiations

Government regulates penalties for late deliveries, poor quality, and deliveries in insufficient volumes; usually subject to supplier-retailer negotiations

1. Law No. 128-Z (1); 2. Prices/margins for "socially important goods" might be regulated, or the profitability margin might be capped for retailers exceeding 35% of the market share for sales within certain categories; 3. Resolution of the Cabinet of Ministers of the Republic of Belarus "On approving the regulations for goods deliveries in the Republic of Belarus" July 8th 1996 No. 444
Source: Regulatory documents from Belarus and CIS, BCG analysis



E-commerce: high import duties on parcels from abroad nearly hinder cross-border e-commerce development in Belarus

E-commerce regulation

Key characteristics



Import duties on parcels from abroad

High import duties on parcels from abroad create entry barriers for the development of international online e-commerce players in Belarus

- As of 14.04.2016 the allowance for duty-free import of goods for personal use sent via international parcels or express consignments is at 22 EUR and 10 kg for 1 recipient within 1 calendar month¹
- Parcels valued above 22 EUR and/or weighing more than 10 kg are considered for commercial use and are subject to import duties of 30% of the excess amount but not less than 4 EUR per 1 kg
- In addition, each parcel is a subject to a customs fee to be paid for processing- generally ~5 EUR per parcel
- The allowances for duty-free import of goods from abroad are expected to be harmonized among EAEU² countries by 2021-22 and set at 200 EUR per recipient per month. However, member states of EAEU are entitled to increase allowances within its countries if necessary.



Expected liberalization of regulation in e-commerce

Two topics were on the recent agenda in Belarusian legislation

- **Law on payment services for deliveries** to allow third-party delivery services to accept cash payments on behalf of online retailers (under discussion)
- **Online sales and delivery for alcohol and tobacco goods** - currently is prohibited , however the topic often returns to the public agenda

1. Presidential Decree No.40 dated February 11th, 2016 2. Eurasian Economic Union members: Belarus, Russia, Kazakhstan, Armenia, Kyrgyzstan
Source: Belarus regulatory documents, BCG analysis

Support for entrepreneurship, the digital economy and a national food strategy were all on recent agendas in Belarusian legislation

Recent agenda	Comments	
 Efforts to support entrepreneurs	<p>Decree No. 7 “On the Development of Entrepreneurship” is aimed at liberalizing of entrepreneurship (Nov 2017):</p> <ul style="list-style-type: none"> • No new taxes introduced until 2020; no increase for effective tax rates; a simplified system of taxation • Notification, instead of permission, for a new business start-up • Simplified requirements for fire safety, sanitary and epidemiological and environmental protection on the premises • Simplified requirements for catering businesses (restaurants, cafés) in terms of assortment, pricing, working hours, and management 	✓
 Digital economy development	<p>Decree No. 8 “On digital economic development” aims to support of innovative entrepreneurs in the high-tech sector (Dec 2017):</p> <ul style="list-style-type: none"> • Aimed at a further development of the Belarusian IT cluster - Hi-Tech Park Belarus - given special legal status until 2049 • Introduces usage of new legal instruments, such as convertible loan agreements, options, indemnity agreements, etc. • Creates legal framework for ICO, use of crypto currency, and introduction of smart contracts • Expands types of business activity (i.e. biotechnology, medical, aviation and space technologies, eSports, etc.) and simplified procedures for the recruitment of foreign specialists for cluster residents 	✓
 National food security strategy 2030	<p>National food security strategy 2030 (Dec 2017) as a reference for future policy development:</p> <ul style="list-style-type: none"> • Emphasis on domestic food production and access towards high quality products and stores • Identification of internal and external threats to food security • Promotion of a healthy lifestyle culture, increasing the share of healthy and organic food in the Belarusian diet 	✓

✓ In power

Overview of Key Consumer Trends



Executive summary



Household incomes

- There are estimated 3.9M households in Belarus today, with the majority consisting of 1-3 people and with disposable income up to 550 BYN per person per month
- Around one-quarter of the population can be considered middle class, with 3% upper class and 73% working class
- Further growth of the middle class expected on the back of GDP growth and subsequent increase in consumption



Consumer behavior

- Further growth of the middle class is expected to strengthen four key trends: growth of Modern Trade, online grocery shopping, fresh and healthy foods, and ready foods in grocery stores
- Belarus residents visit grocery stores on average five times a week; half of the visits are for top-up missions; nearly half of the spend is on stock up missions
- Most important factors in store selection are location, product range, price, and quality; customers in smaller towns tend to prefer Modern Trade along these parameters and want modern retail chains such as Euroopt to come to their towns



Perception of retail chains

- Euroopt is the leading chain in the market in terms of awareness, customer traffic and image along all major dimensions; besides, promo games are almost exclusively associated in the market with Euroopt. Other market leaders in terms of awareness and traffic are Korona, Brusnichka, and Almi

Source: BCG survey on retail market and brand perception in Belarus. Survey was carried out in April 2018 and covered 758 respondents covering all regions and city sizes across Belarus: Minsk, Brest, Vitebsk, Gomel, Lida, Bobruisk, Gorodok, Novolukoml, Shklov, Bykhov, Mosty, Skidel, Bereza, Luninets, Miory, Chashniki, Orekhovsk, Pleshchanitsy, Oktyabrsky, Gorodishche, Radoshkovich, Klichev, Bogushevsk, Chernikov, Kirovsk, Uvarovich, Zarechye, Glusk, Starobin, Loev, Gorodeya, Ivie, Radon, Dyatlovo, Ostrino, Kossovo, Vysokoe and David-Gorodok

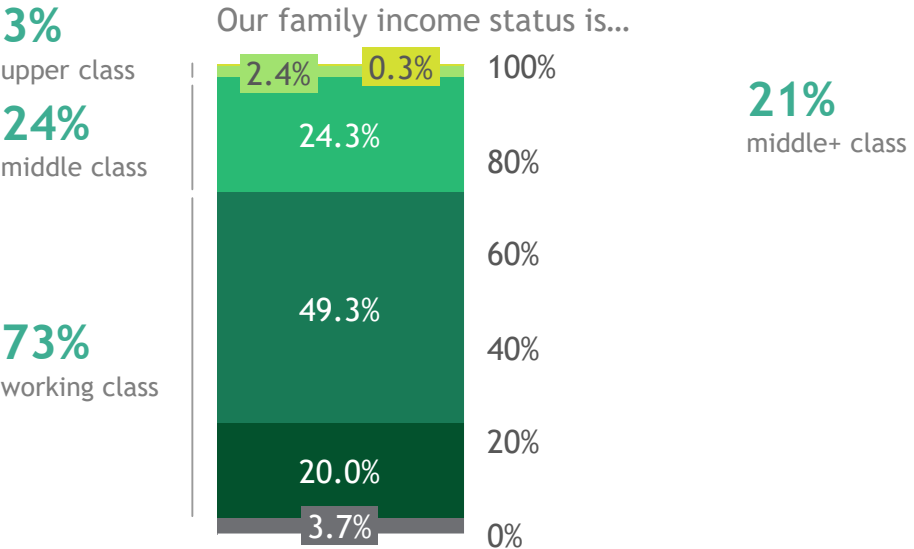
Almost a quarter of the 3.9M households in Belarus can be considered middle class

96% of population can easily afford to buy food

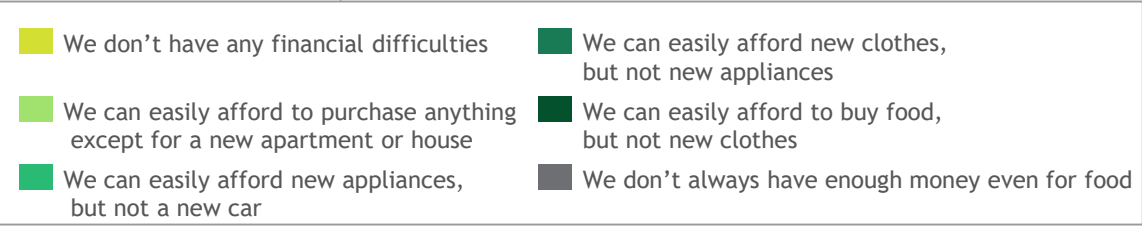
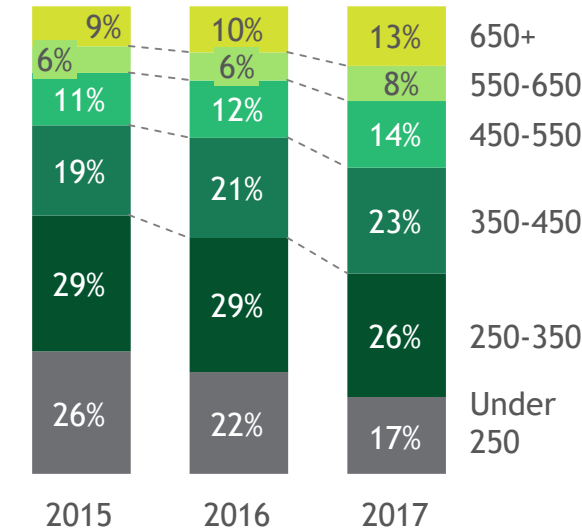
Middle class estimated at 24% as residents who can afford new appliances



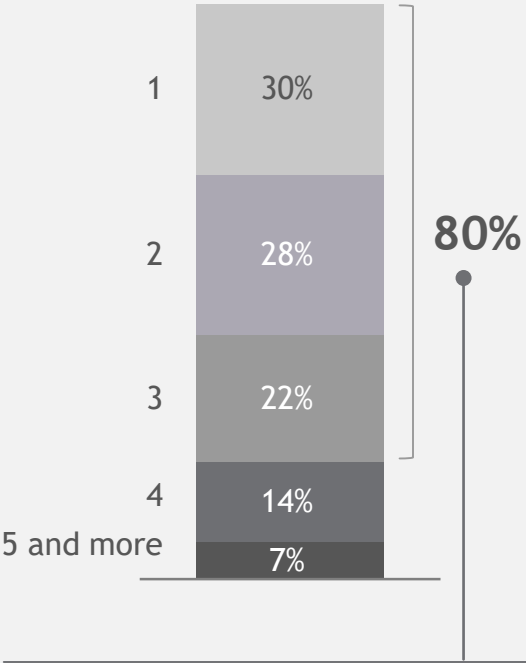
The estimates are confirmed by disposable income statistics



Households by disposable income per person/month, %, BYN



% of Belarus population by number of people in household, 2009



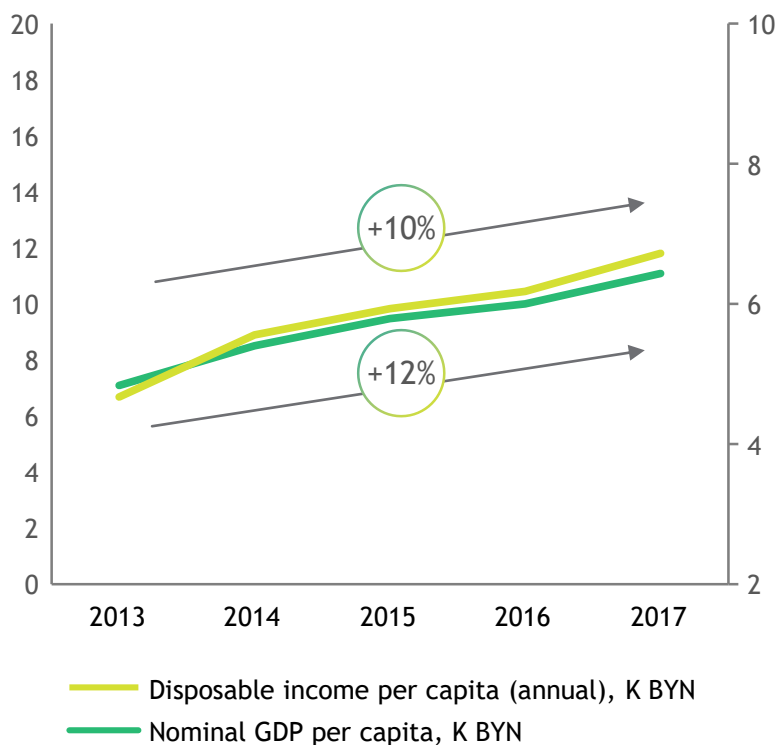
2.4
Average size of the household

> 3.9M
Total no. of households

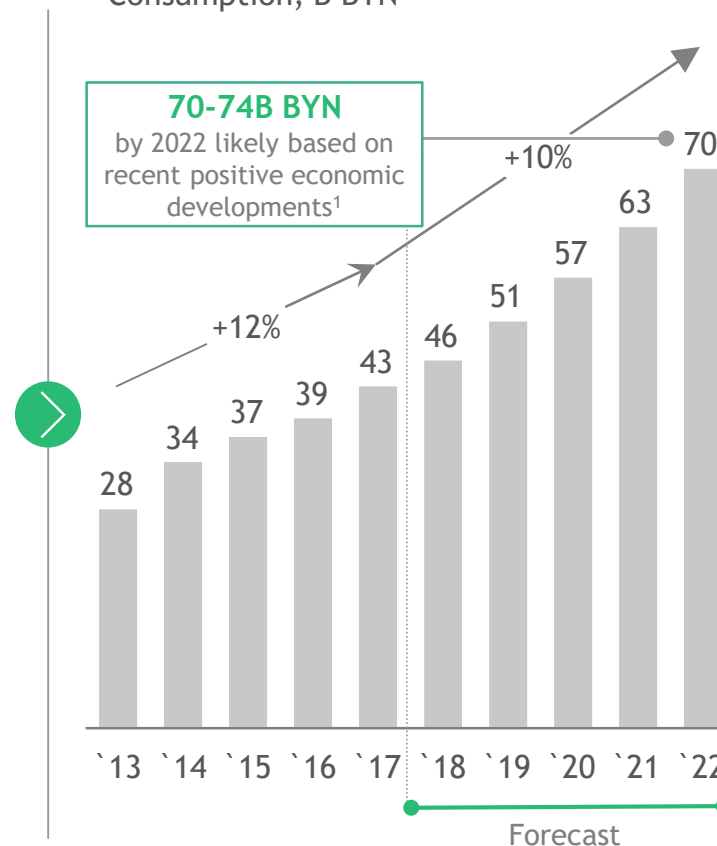
Source: BCG survey on retail market and brand perception in Belarus, April 2018, 758 respondents

Further growth of the middle class is expected on the back of GDP growth and subsequent increase in consumption

GDP per capita, K BYN Disposable income per capita (annual), K BYN



Consumption, B BYN



Living in an urban or rural area is a further driver behind differences in income levels

20% gap in average per capita incomes between areas with population <10K and Minsk/regional centers

7% gap in average per capita incomes between areas with population <10K and urban areas (10K+ population)

1. The World Bank Belarus economic update on 19 April 2018
Note: Consumption of services not included in estimates; forecast for 2018-2022 is based on nominal GDP growth
Source: National Statistical Committee of the Republic of Belarus; BCG analysis

Four key trends are driving behavior of Belarusian customers



Preference for Modern Trade



Online shopping









Fresh and healthy foods



Ready foods

Retail chains are already starting to react to identified trends

				
	Modern Trade	Online shopping	Fresh and healthy foods	Ready foods
Trend prerequisites	<ul style="list-style-type: none"> Search for better deals, wider assortment and better service Shopping process convenience 	<ul style="list-style-type: none"> Growing Internet penetration Purchase convenience, importance of saving time 	<ul style="list-style-type: none"> Growing popularity of healthy lifestyle Mass media attention to potential risks of mass market products 	<ul style="list-style-type: none"> Dynamic lifestyle in big cities and lack of time Good prices compared to restaurants / cafes
Importance of trend	<p>4/5 times a week urban residents do grocery shopping in Modern Trade stores / all grocery stores</p>	<p>21% respondents have already tried purchasing groceries online</p>	<p>66% care about buying healthy and ecological food when purchasing groceries</p>	<p>24% try to save time and purchase ready foods from grocery stores (ready salads, pancakes, other precooked foods)</p>
	<p>18% have not visited markets or kiosks at all over the past three months</p>	<p>18% are considering trying grocery shopping online</p>	<p>54% reported growing consumption of fresh categories compared to the year before</p>	
Retailer response	<p>Euroopt rapidly expanding into rural areas with no Modern Trade outlets</p>	<p>Euroopt launched e-commerce</p> <p>   </p>	<p>Focus to enhance Fresh categories claimed by most of top 10 retailers</p>	<p>Own culinary shop, sushi and salad desks in all large Modern Trade outlets</p>

Source: BCG survey on retail market and brand perception in Belarus. Survey was carried out in April 2017 and covered 758 respondents covering all regions and city sizes across Belarus: Minsk, Brest, Vitebsk, Gomel, Lida, Bobruisk, Gorodok, Novolukoml, Shklov, Bykhov, Mosty, Skidel, Bereza, Luninets, Miory, Chashniki, Orekhovsk, Pleshchanitsy, Oktyabrsky, Gorodishche, Radoshkovichi, Klichev, Bogushevsk, Chernikov, Kirovsk, Uvarovichi, Zarechye, Glusk, Starobin, Loev, Gorodeya, Ivie, Radon, Dyatlovo, Ostrino, Kosovo, Vysokoe and David-Gorodok

Stock-up missions account for nearly half of Belarusian grocery spend

People in Belarus visit shops for a mix of different missions

- 1

Main shop
- 2

Purchase groceries for a specific occasion / to cook a specific meal
- 3

Top up shop to replace consumed or perishable goods
- 4

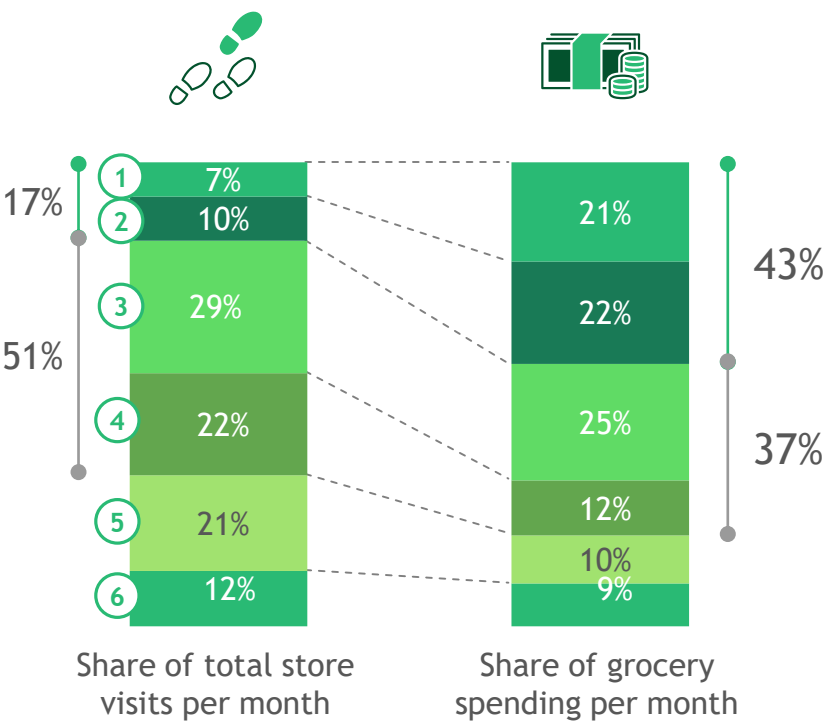
Emergency shop
- 5

Spontaneous store visit when passing by
- 6

Visit store to capture a specific promo / discount deal
- Stock up missions

Top up missions

Stock-up missions account for 17% of visits and 43% of total grocery spend



How Belarusians shop



5 times per week on average visiting a grocery store



40% try to save money when buying food

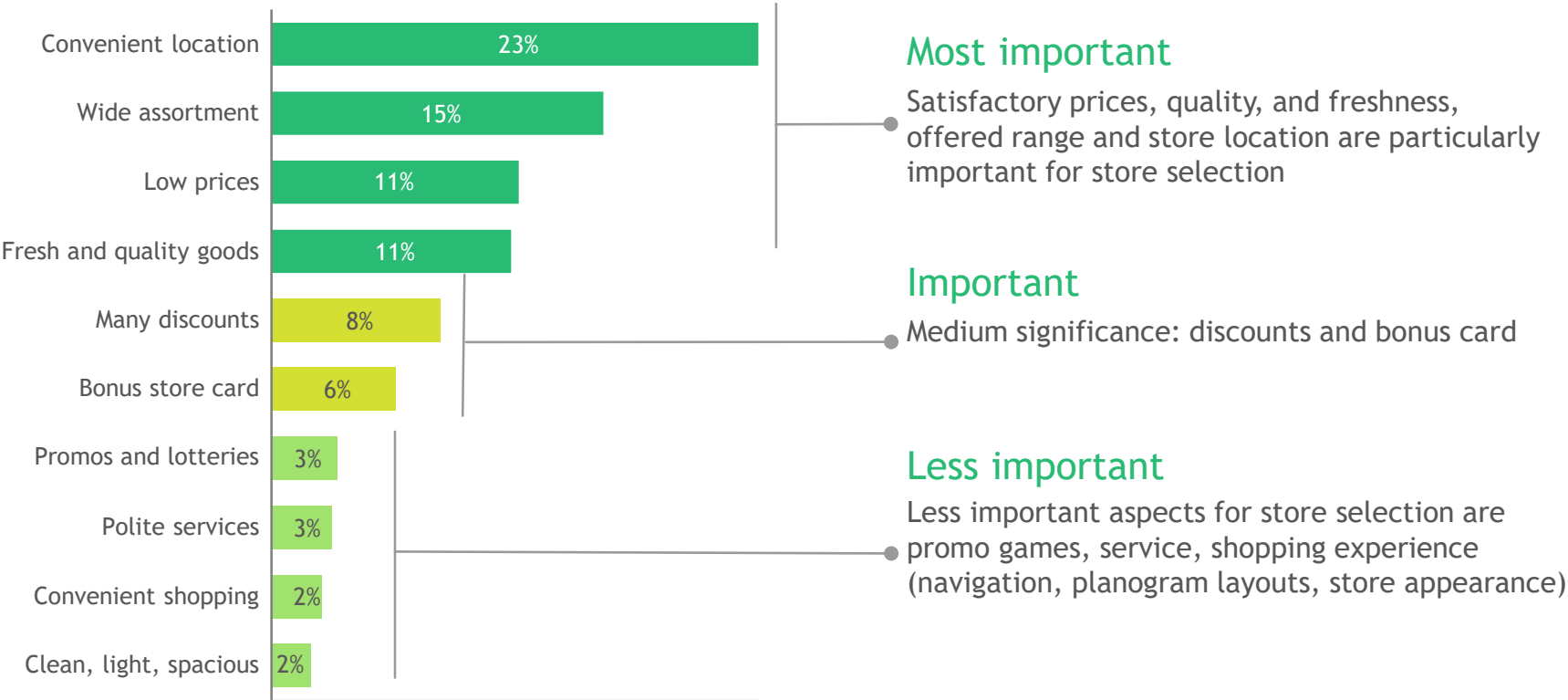


45% find it important to purchase Belarusian groceries

Belarusian residents select stores based on four key criteria: location, assortment, price, and quality

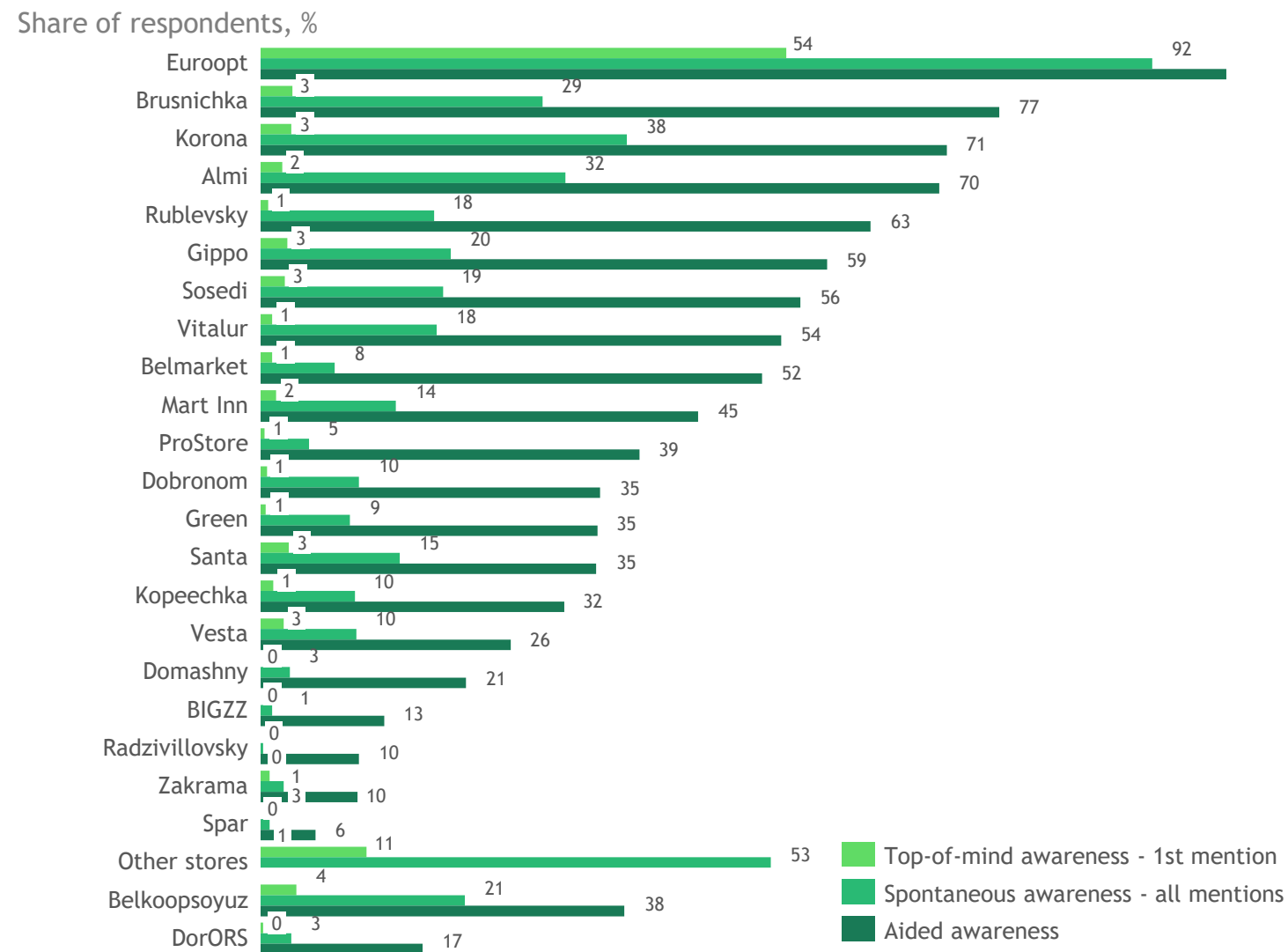
? I will show you a number of store selection criteria.
Please specify up to 3 criteria which matter the most to you

Share of respondents considering the driver when making store selection



Source: BCG survey on retail market and brand perception in Belarus, April 2018

Euroopt is a standout leader in awareness: 100% of Belarusians know it, and for >50% of respondents it is the top-of-mind retailer



Retailer brand awareness



Top-of-mind unaided brand awareness - 1st mention

Question: Which grocery stores do you know? Please name one

Unaided brand awareness - all mentions

Question: Which other grocery stores do you know? Please name all stores

Aided brand awareness

Question: Which of these stores do you know, whether or not you ever shopped there? Please name all the stores you know

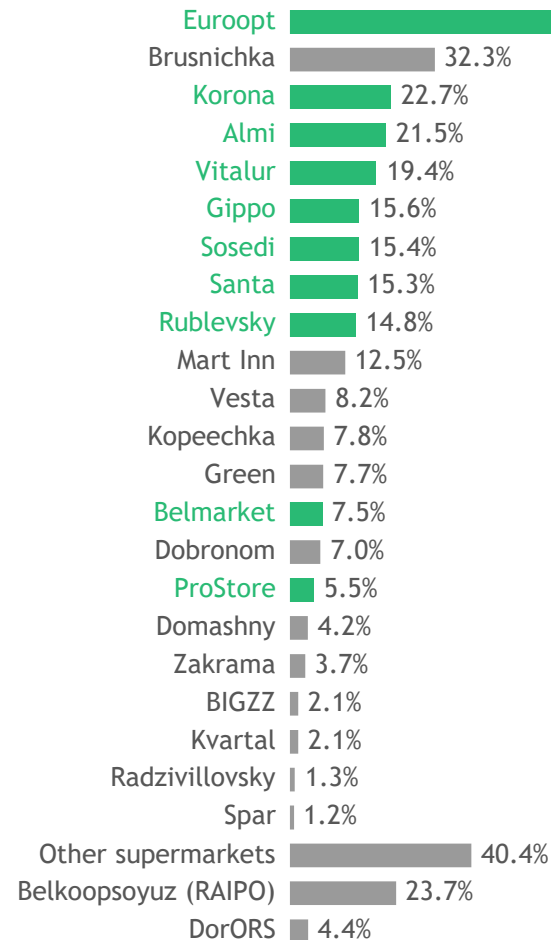
Source: BCG survey on retail market and brand perception in Belarus, April 2018

Euroopt is the most visited retailer and the "store of choice" for 38% of Belarusians

Retailers visited, share of respondents

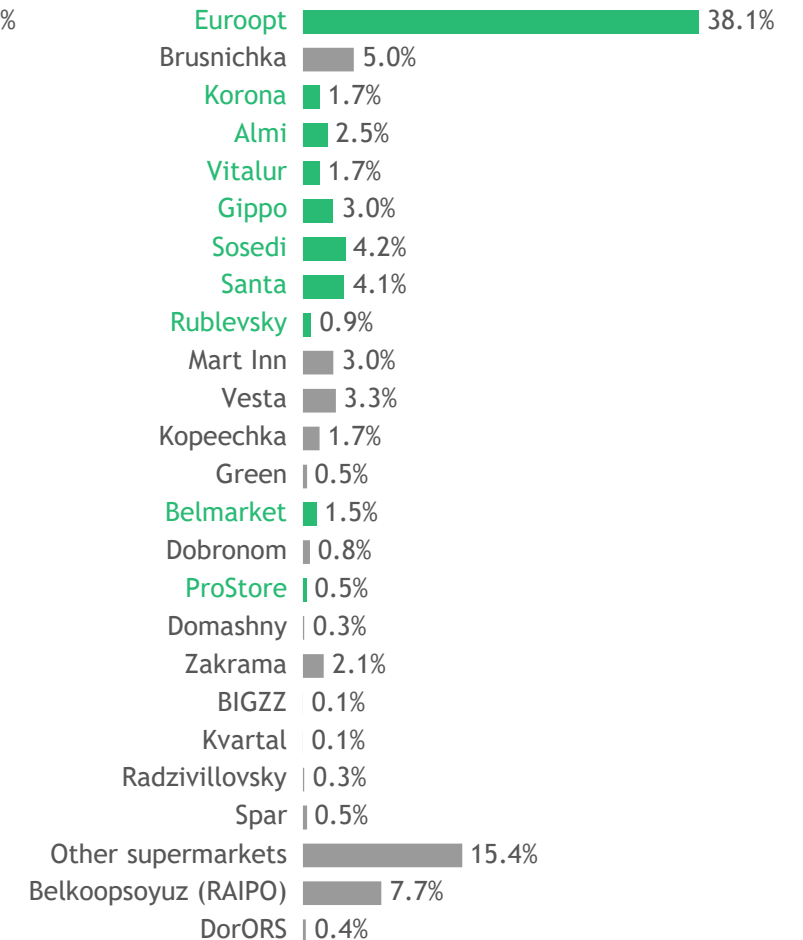
?

Which of these grocery stores have you visited over the past 3 months (%)?



?

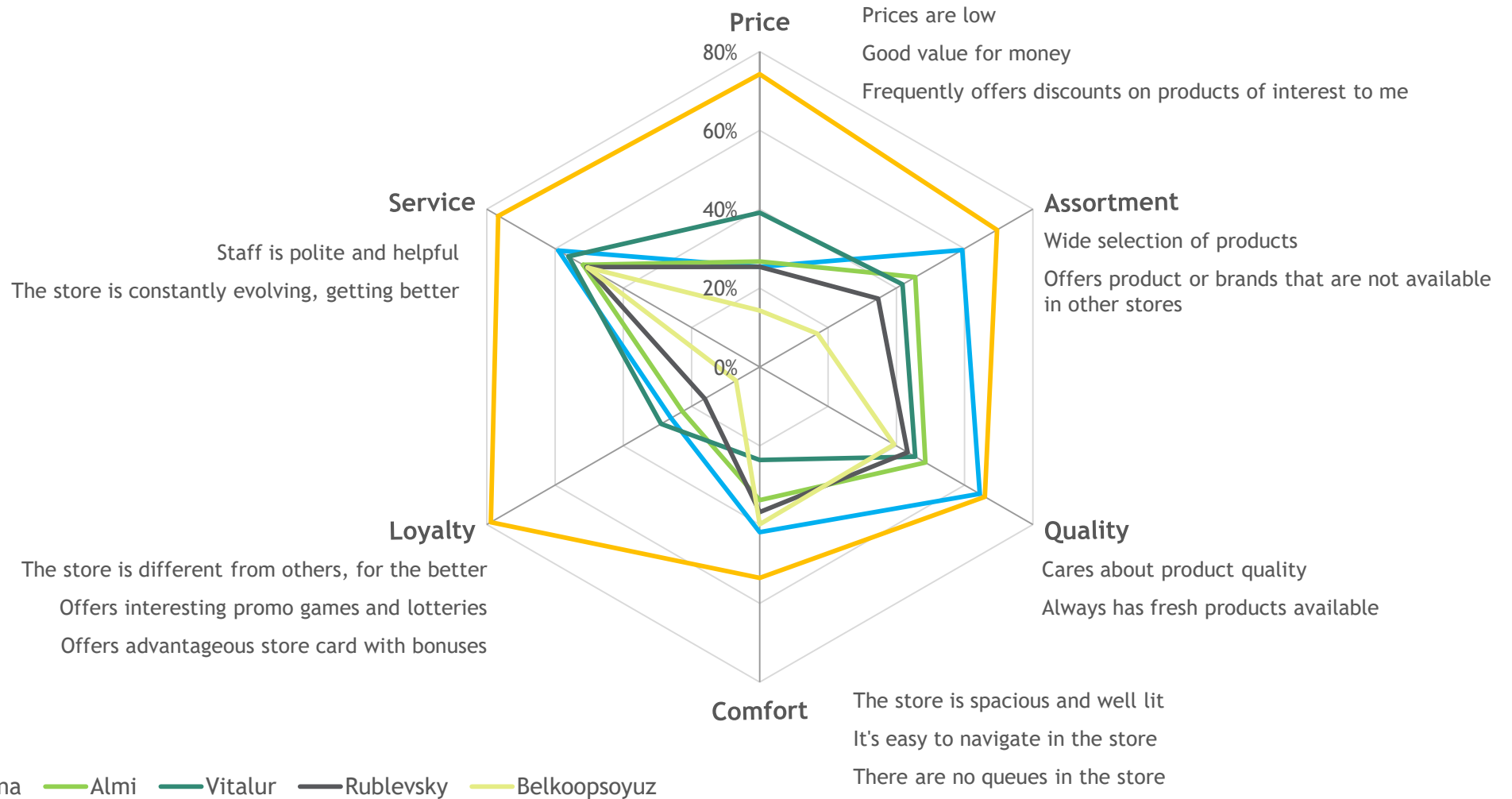
What store do you buy groceries at the most often (%)?



XX - top 10 player

Euroopt leads by all metrics and has a balanced profile

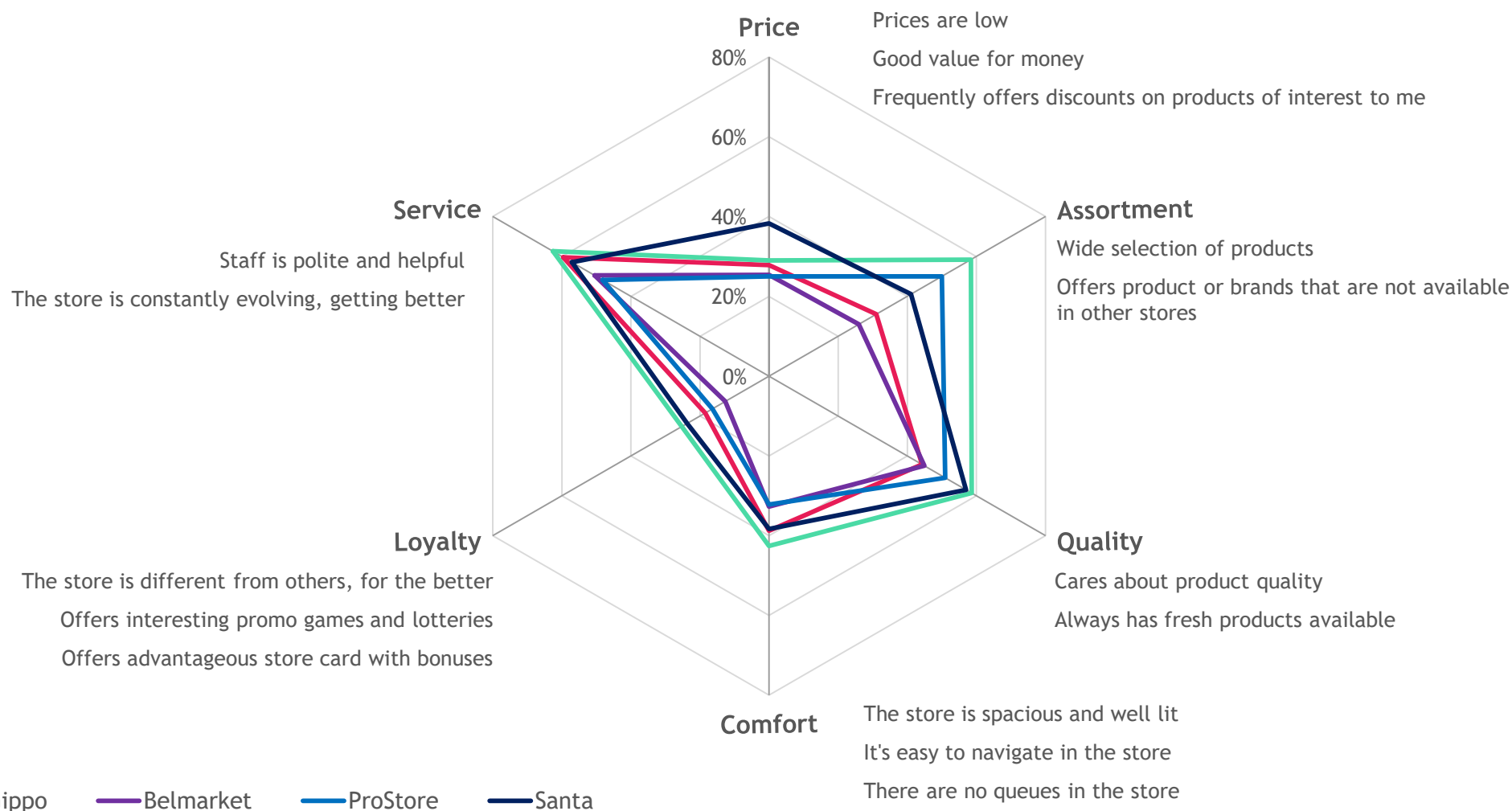
Image of retailers (I/II): Top 5 players and Belkoopsoyuz



Question: Please specify which stores each of the statements suits best (multiple answers possible)
Source: BCG survey on retail market and brand perception in Belarus, April 2018

Gippo and Santa are the strongest among players 6-10 but still behind the leader

Image of retailers (II/II): players 6-10



Question: Please specify which stores each of the statements suits best (multiple answers possible)
Source: BCG survey on retail market and brand perception in Belarus, April 2018

Euroopt price leadership confirmed during store visits



Price index

100	Euroopt
121	Korona
117	Almi
121	Vitalur
119	Rublevsky
117	Gippo

Note: All numbers are price indices; Euroopt prices taken as 100%
 Analysis based on 20 randomly selected basic products covering different categories; in case of packaged goods, a certain brand was selected, in case of fruits / vegetables - a certain variety
 Source: Store visits in Apr 2018

		Euroopt	Korona	Almi	Vitalur	Rublevsky	Gippo
	Bananas, 1kg	100	150	140	150	130	150
	Apples, 1kg	100	129	104	96	n/a	104
	Tomatoes, 1kg	100	n/a	110	n/a	n/a	115
	Potatoes, 1kg	100	188	182	214	182	182
	Chicken filet	100	126	120	108	101	n/a
	Pork mince	100	106	123	n/a	92	115
	Pollock fillet, 1kg	100	171	114	115	100	100
	Sunflower oil, 0.81l	100	87	104	n/a	106	104
	Mayonnaise, 400g	100	n/a	121	121	141	118
	Cheese, 250g	100	89	100	89	118	87
	Milk 2.5%, 1l	100	106	121	109	112	103
	Toast bread	100	120	109	n/a	130	130
	Oat flakes, 500g	100	132	127	134	154	134
	Sugar, 1kg	100	103	103	n/a	100	103
	Instant coffee, 190g	100	120	105	n/a	n/a	141
	Water, 0.75l	100	83	120	100	104	109
	Vodka, 0.5l	100	127	124	114	n/a	114
	Beer, 2l	100	158	111	106	107	104
	Champagne, 0.75l	100	113	119	92	100	108
	Pack of cigarettes	100	100	100	n/a	100	100

XX - 100 and below

XX - above 100

n/a - SKU not available in store

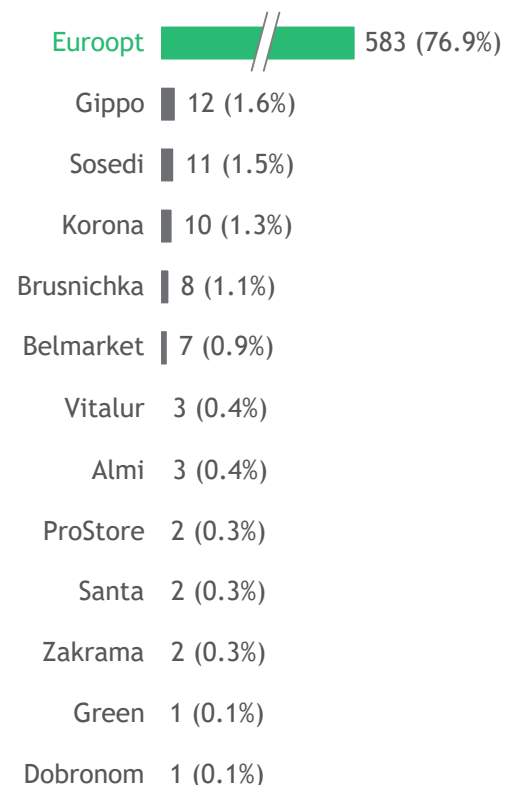
70% of
Belarusians
participate
in promo games



The very idea of promo games is associated with Euroopt

? What promo games organized by grocery stores do you know? What stores run them?

Number of people recalling
a particular retailer



Promo games mentioned

Udacha v pridachu (Good luck in the bargain), Bonsticks, Kraina Vitamina
Dinosaurs, Ochen, 2 for 1, discount coupons for utensils

Vygoda, Kupilka

Fortuna, Korona Superprize, Korona Techno

Tovar Udachi, Udacha v Pridachu

Belmarket X, Bolshoy Kush

1+1

Vygoda

Soberi Druzei (Gather your friends)

2 for the price of 1

Vygoda

2 for the price of 1

Aktivnoe Leto (Active Summer)

Top 3 most known promo games are run
by Euroopt



Participate in a weekly prize draw (prizes include cars and apartment in Minsk) for every 10 BYN spent in store, in case of the purchase of pre-defined 'goods of fortune' and presenting the store card upon checkout



Collectible figurines issued when one makes a 15 BYN purchase and produces a store card. One gets additional figurines when buying particular goods (promo game was active throughout 2017)



Seed pots handed out when one makes a 20 BYN purchase and produces a store card (promo game active from February 26 to April 25, 2018)

Belarus Grocery E-commerce



Executive summary



E-commerce overview



Grocery e-commerce

123

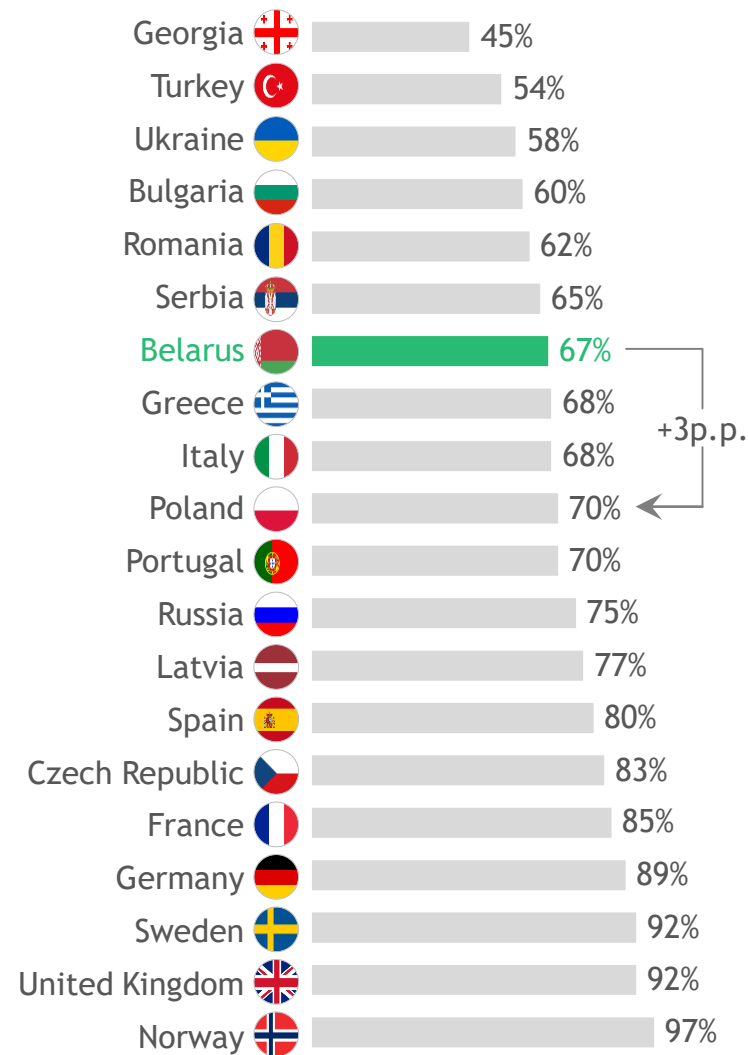
Players

- 67% of the population of Belarus has access to the Internet, on a par with European averages; 2 out of 3 Internet users in Belarus shop online, which is a higher conversion rate than most European countries
- Belarus' grocery e-commerce market totals ~90 M USD (~173 M BYN) and ~9 USD per capita which is 2x greater than the EE spend per capita
- Grocery e-commerce grew at 189% CAGR in 2014-17
- Grocery e-commerce is expected to grow at 35% CAGR in 2018-22, the fastest rate in Europe, and to reach ~320 M USD (~777 M BYN) by 2022
- Growth will be driven by growing penetration of enablers (internet, smartphones, bank cards), expected liberalization of regulation to allow online sale and delivery of tobacco and alcohol products, high import duties on parcels from abroad, with 90% satisfaction with online purchases among those who tried
- Key barriers to address for grocery e-commerce: consumer trust in product quality when purchasing online and trust in online as a channel for groceries
- The online grocery market leader is Eurotorg with a 98% market share in Belarusian e-commerce
- Its two grocery e-commerce services e-dostavka.by and GIPERMALL.BY cover all the regions of Belarus
- None of the other top 10 Grocery players are active in e-commerce
- The only discovered competitors are Restoracia.by (premium grocery) and Perekrestok¹ (p24.by, covers only part of Mogilev region). Niche players account for less than 2% market share in Belarus grocery e-commerce

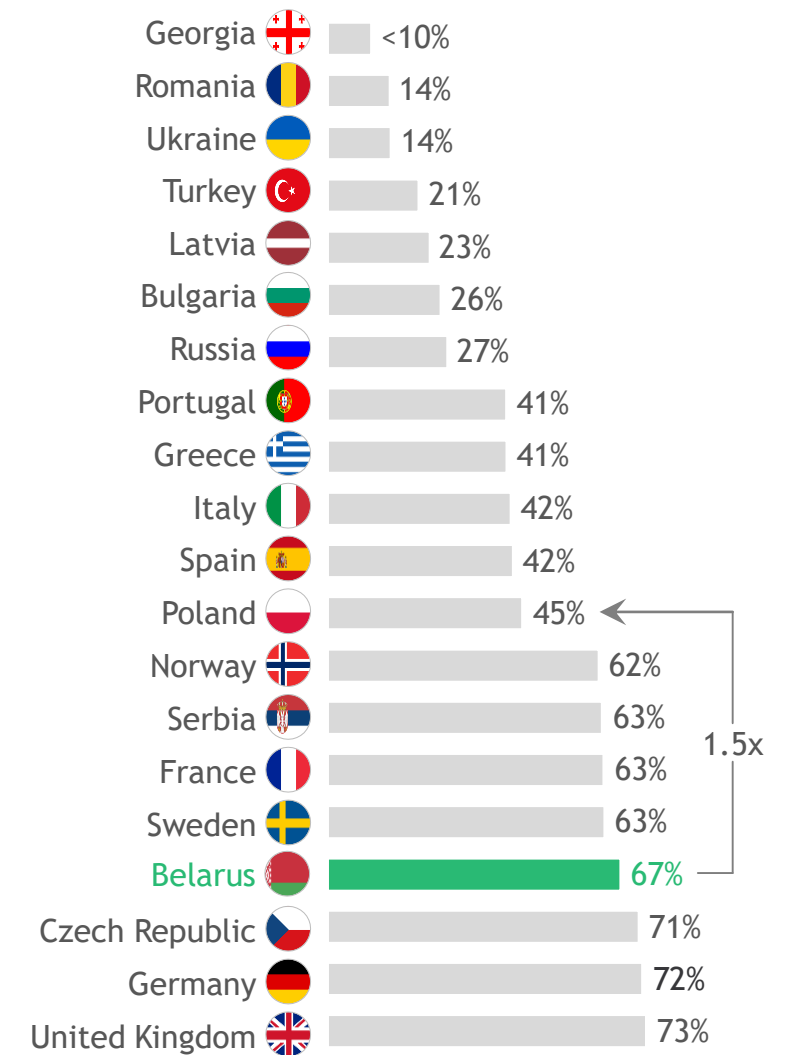
1. Belarusian retailer, with no affiliation with Russian retail chain Perekrestok of X5 Retail Group
Source: E-commerce Europe, eShopWorld, Euromonitor, Company data, BCG market model, BCG survey

Belarus has one of the highest e-commerce penetration rates in Europe

Internet penetration
(% of population with internet access, 2016)

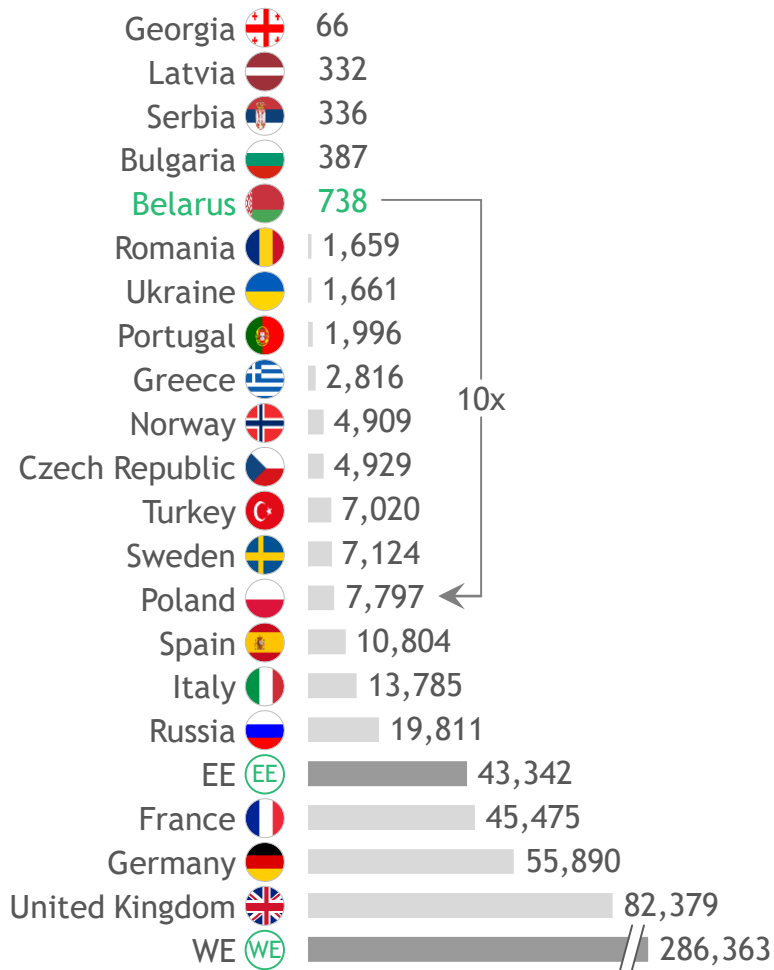


E-commerce penetration
(% of online users buying online, 2016)

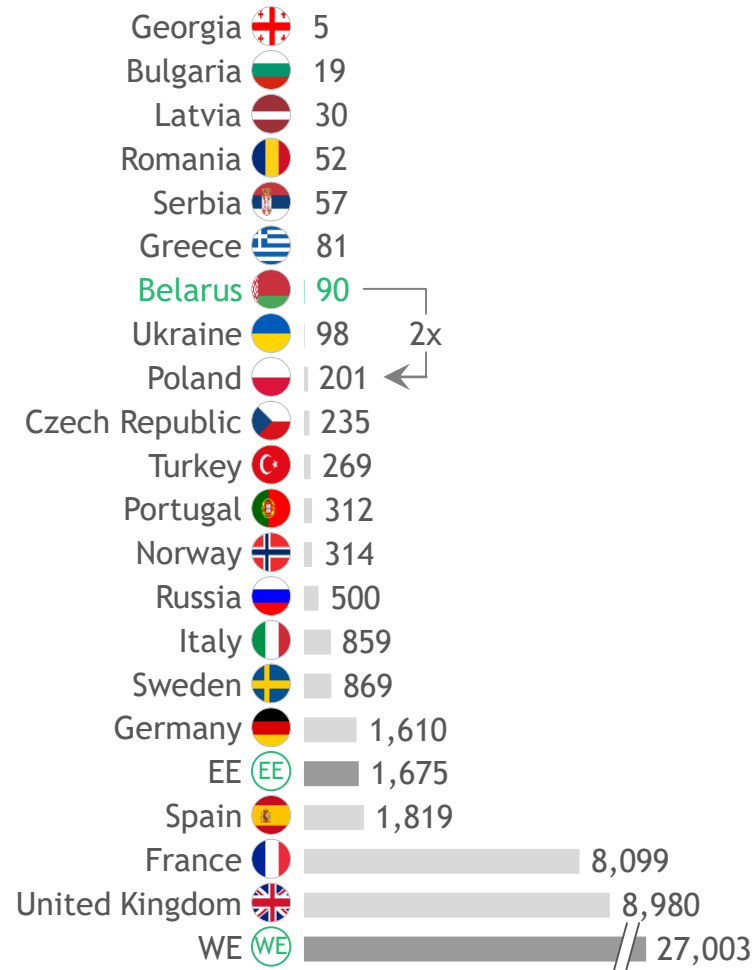


Belarus: grocery e-commerce market per capita is 2x greater than EE levels

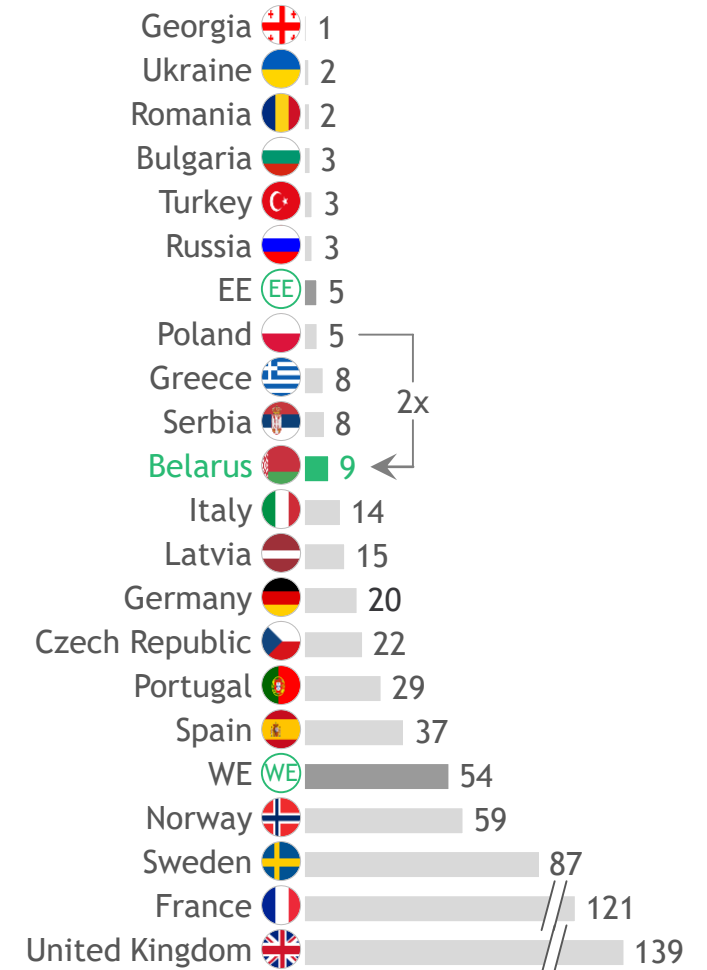
Total e-commerce (M USD, 2017)



Grocery e-commerce¹ (M USD, 2017)



Grocery e-commerce per capita (USD, 2017)



1. Grocery e-commerce (as non-store based grocery retail) is not included in total grocery retail market reviewed in Grocery Retail Market Overview (part 2 of this presentation)

Note: data for all countries except Belarus and Russia is from Euromonitor; for Belarus and Russia grocery e-commerce data is from company data and expert interviews

Source: Euromonitor, Company data, expert interviews, BCG market model

Belarus' grocery e-commerce grew 25-fold over the past 3 years; high growth momentum expected to be maintained



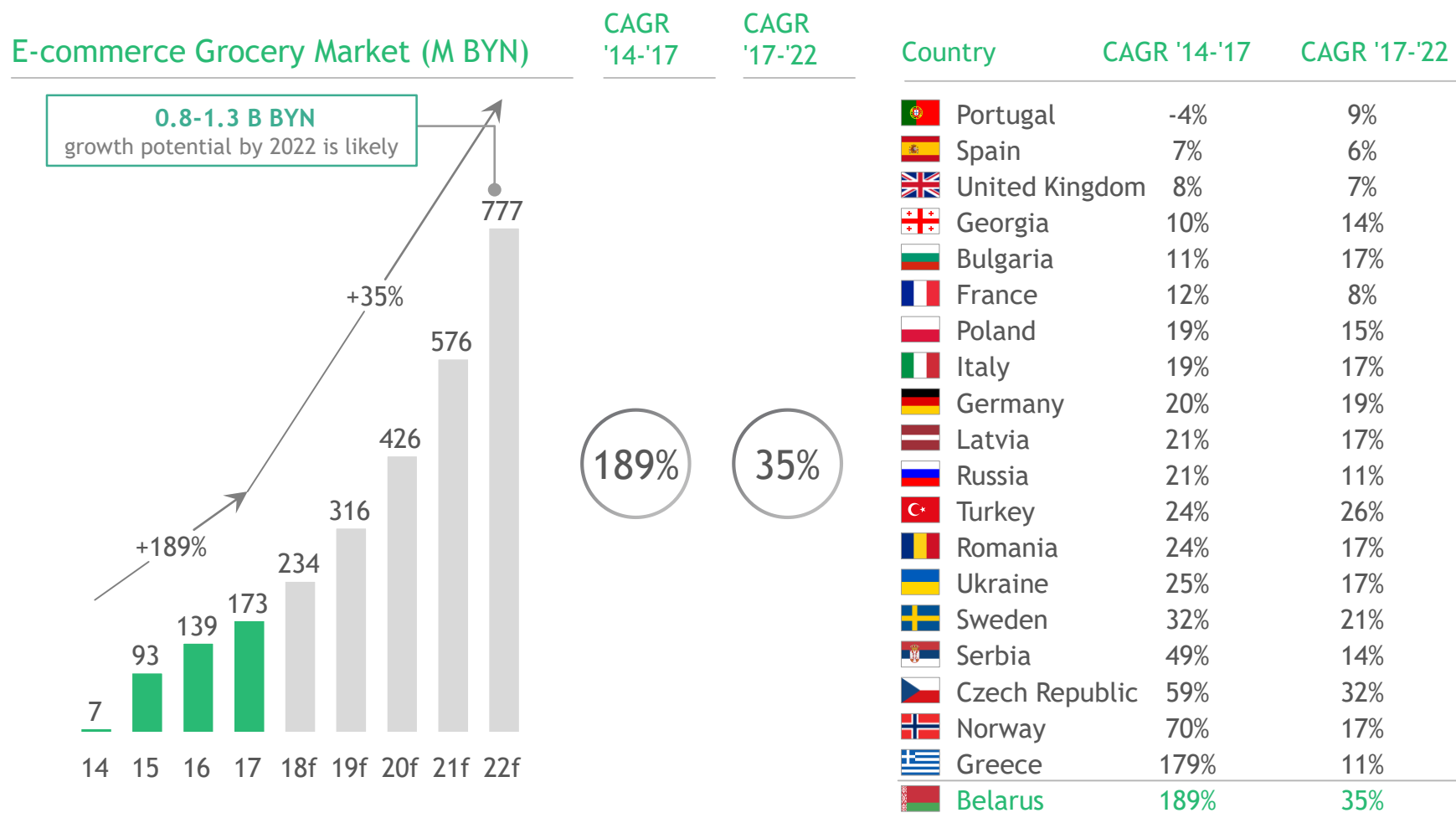
E-commerce drivers 2017-2022

Growing e-commerce penetration: more consumers will try online grocery shopping and stick to it

Expected liberalization of regulation to allow online sale and delivery of alcohol and tobacco products

High import duties on parcels from abroad prevent cross-border e-commerce

Further growth in penetration of Internet, smartphones and banking cards



Note: data for all countries except Belarus and Russia is from Euromonitor; for Belarus and Russia grocery e-commerce data is from company data and expert interviews.

Source: Euromonitor, Company data, expert interviews, BCG market model

Almost half of the population is ready to buy groceries online – to involve the rest, product quality and consumer trust of the online channel need to be addressed

More customers will try online grocery shopping and stick to it

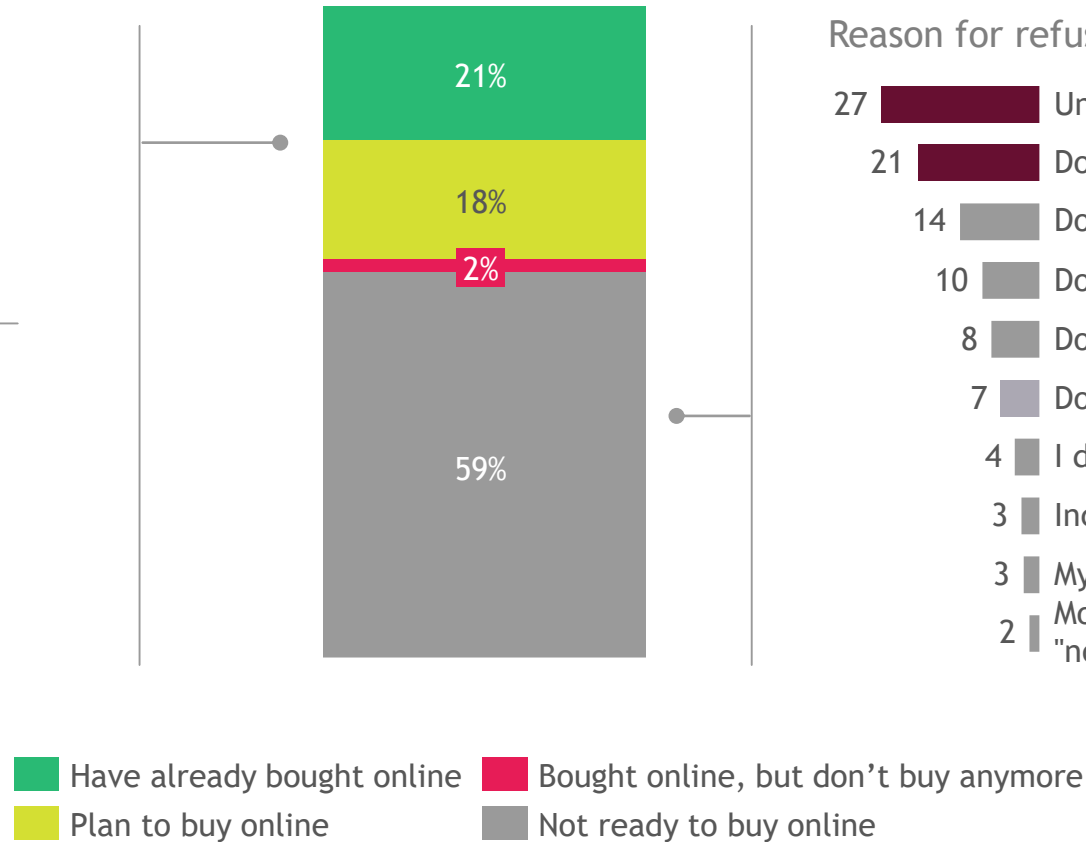


- Growing Internet penetration
- Online purchase convenience
- Importance of saving time



- **1/5** of population is already purchasing groceries online
- **90%** of those who tried have positive attitude to online grocery shopping
- **Further 1/5** of population is ready to try purchasing online

Attitude towards grocery e-commerce, %



Grocery e-commerce barriers: consumer trust in product quality and on-line as a channel

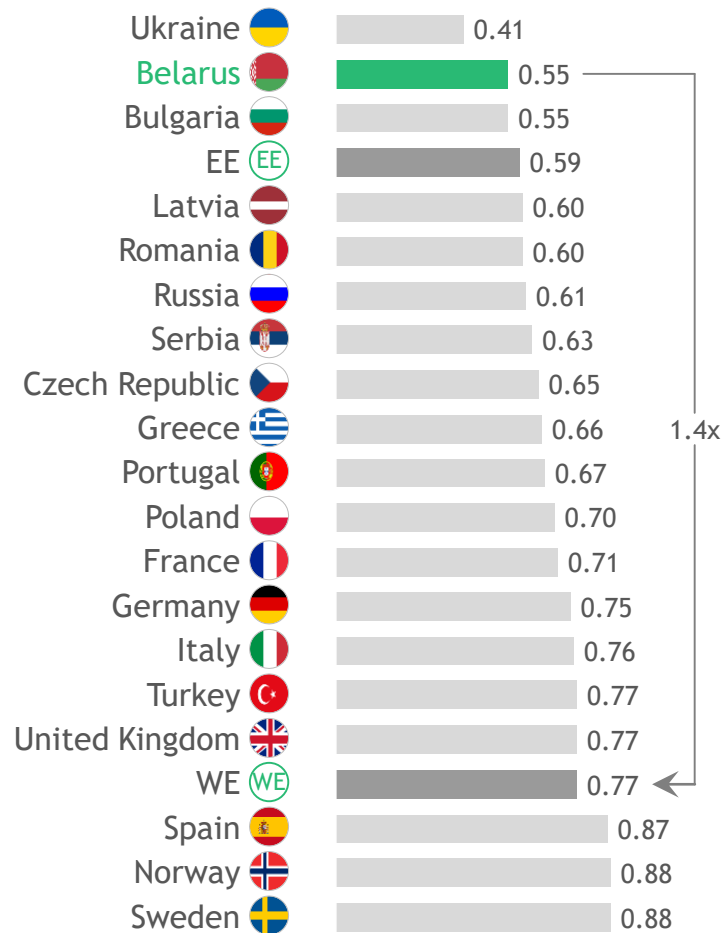
Reason for refusal, %

- | | | |
|----|---|-------------------------------------|
| 27 | ■ | Unsure about quality |
| 21 | ■ | Don't trust websites |
| 14 | ■ | Don't know how to order online |
| 10 | ■ | Don't use internet |
| 8 | ■ | Don't want to pay for delivery |
| 7 | ■ | Don't trust couriers |
| 4 | ■ | I don't know online groceries |
| 3 | ■ | Inconvenient delivery |
| 3 | ■ | My store doesn't have e-commerce |
| 2 | ■ | More expensive than "normal" stores |

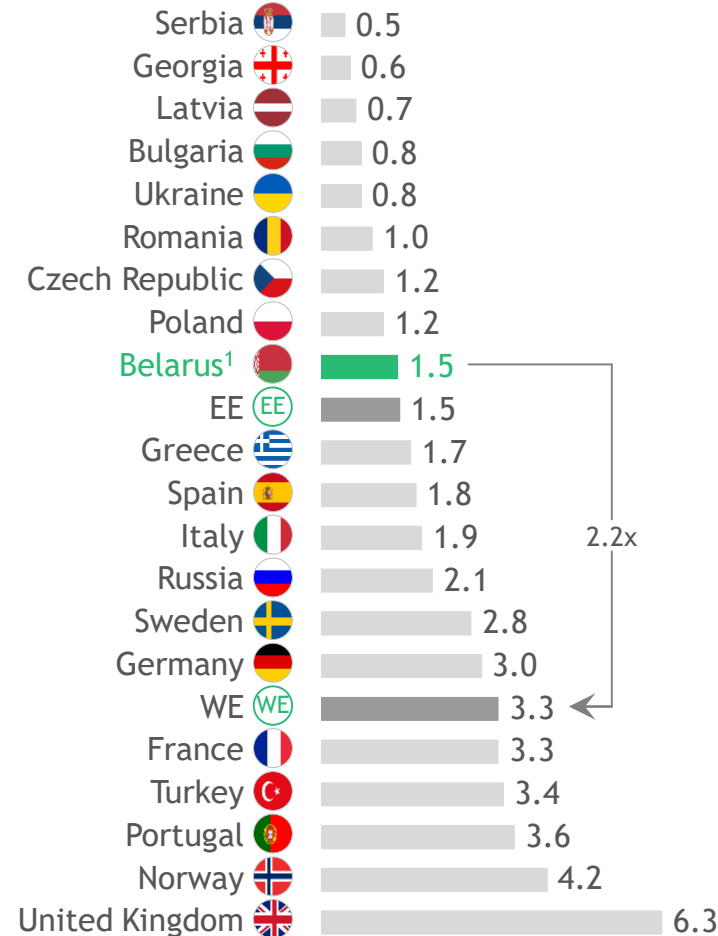


Smartphone and bank card penetration is set to grow and enable further Internet and e-commerce penetration

No. of smartphones per capita (2017)



No. of bank cards per capita (2017)



Belarus: share of Internet penetration growing



1. Data on number of bank cards for Belarus taken from National Bank of the Republic of Belarus; for other countries - Euromonitor
Source: Euromonitor, Belarus National Statistical Committee, National Bank of the Republic of Belarus, Google, Hootsuit, BCG analysis

Eurotorg covers the whole country with two e-commerce grocery services

Eurotorg grocery e-commerce Market Share (% , 2017)



Other players (some examples)

ИНТЕРНЕТ-МАГАЗИН ПРОДУКТОВ
ПЕРЕКРЕСТОК

Mogilev Region

РЕСТОРАЦИЯ™
2006

Focus on Minsk

Eurotorg - the only top 10 grocery retailer with e-commerce sales

	Eurotorg	✓
	Korona	✗
	Almi	✗
	Vitalur	✗
	Rublevsky	✗
	Sosedi	✗
	Gippo	✗
	Belmarket	✗
	Prostore	✗
	Santa	✗



e-commerce



No e-commerce

Note: Perekrestok is owned by Mogilev businessman Vyacheslav Pivovarov who also owns a number of premises and other businesses in Mogilev, (no affiliation with Russian retail chain Perekrestok of the X5 Retail Group); Restoraciya is part of the Avalon Group, which unites a number of logistics, food and non-food distribution companies, and cafes in Belarus. Source: Euromonitor, Company data, BCG market model, BCG analysis

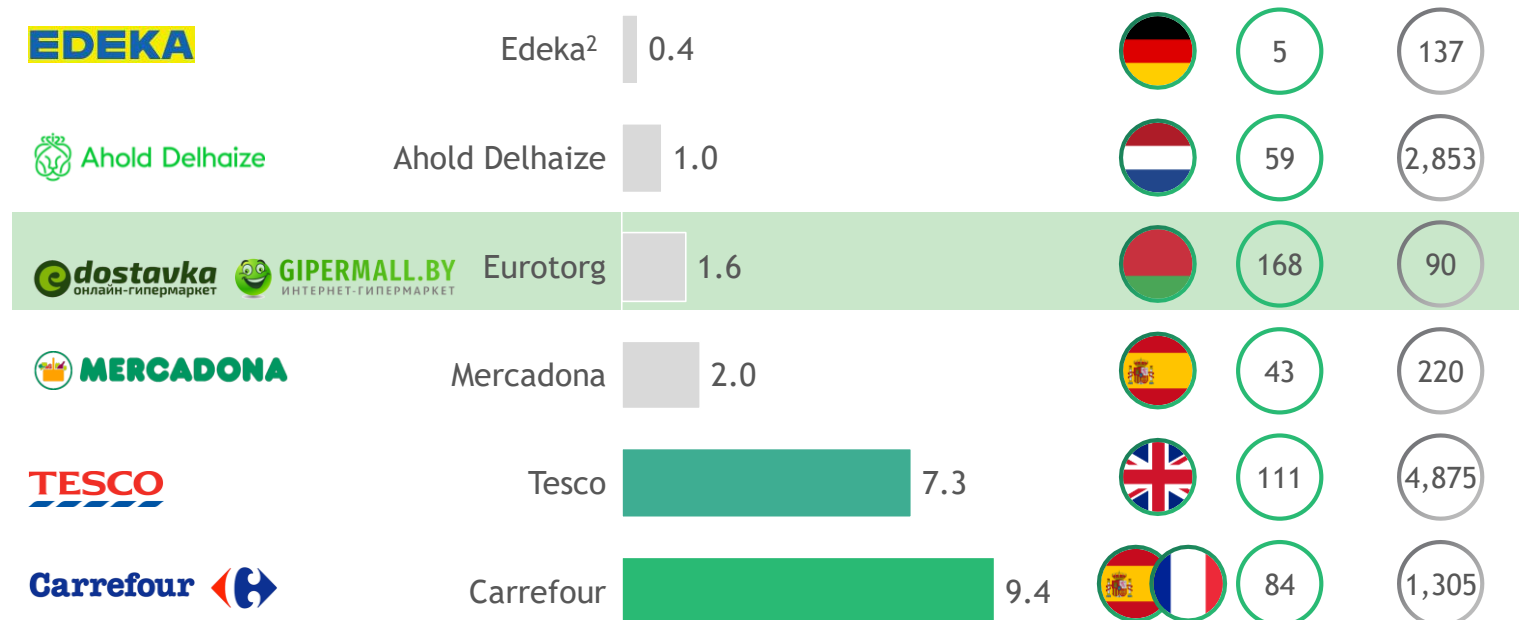


Eurotorg exceeds
European retailers in
monthly website
visits per capita

Average monthly visits (M)

Average for November 2017-April 2018

Monthly visits per 1,000
people in population E-commerce Sales
(M USD, 2017)



1. Given for Edeka24.de;

Note: not enough data to assess traffic of Restoracia and Perekrestok web sites

Source: Similar web, Alexa, Planet Retail, CapIQ, Company data, BCG market model, BCG analysis

Barriers to Market Entry



Executive summary



Overview

- Four core barriers to entry to Belarusian retail market: regulation on assortment sourcing, infrastructure limitation, acquisition challenges and high import duties for parcels from abroad
- All barriers together, or each separately, create substantial challenges for a new entrant to rapidly build store network and efficient supply chain



Assortment sourcing

- Grocery retailers are obliged to list domestic assortment: min. quantities are set, per category, for each outlet-size; overall, 600-3,350 SKUs per outlet to be of local Belarusian origin
- Strong barrier to entry for international players, especially for hard discounters, with 1,000-2,000 SKUs in total, who would have to source majority of their assortment from Belarus



Infrastructure

- Shortage of: supply of real estate for lease to open a mid-size or large grocery store, warehouse capacity with 1.5- 2x rates of Europe, and 3 PL transport companies with competitive rates
- Immediate access to an efficient supply chain is not possible, entrants would need to start from scratch



Acquisition targets

- Lack of acquisition targets with country-wide presence, except for #1 player, Eurotorg



E-commerce

- High import duties on parcels from abroad nearly hinder cross-border e-commerce development in Belarus: parcels valued >22 EUR and/or weighted >10 kg are subject to import duties of 30% of the excess amount⁴

4

Barriers to entry to the Belarusian retail market

Regulation on Assortment Sourcing

Infrastructure Limitation

Acquisition Challenges

High import duties on parcels from abroad

Regulation of assortment sourcing is a challenge for new entrants, almost impossible to overcome by hard discounters



Grocery retailers are obliged to list domestic Belarusian assortment: 600-3,350 SKUs to be of local Belarusian origin, depending on outlet size



New entrant would have to take time and money to develop a relationship with local producers and ensure competitive pricing

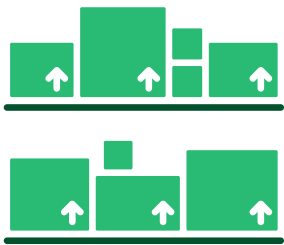


Import duties 5-30%, per category, further challenge the business case of importing private label for any international player

Regulation of assortment: international discounters would have to source the majority of their assortment from Belarus



Infrastructure limitations: immediate access to an efficient supply chain not possible - entrants would need to start from scratch



Shortage of warehouse capacity drives up lease rates

Annual lease rate¹ is 1.5-2x higher than in European countries

Warehouse capacity per capita² 2-3.5x lower than in European countries



Shortage of 3PL transport companies with competitive rates

5 out of 5 top grocery retailers operate their own transport or use a mixture of own/leased, for economic reasons



Shortage of real estate available for lease to open a mid-size/large grocery store




Best store locations for mid-size and large grocery stores are already occupied by market players

New entrants would have build their own stores => time and money, challenging to ramp-up store network

1. For class A warehouse, per m2: Belarus 88 USD vs. Poland 37USD vs. France 61USD vs. Russia 56USD; 2. Warehouse capacity per 1,000 people: Belarus 71m2 vs. Poland 302 m2 vs. France 194m2 vs. Russia 158 m2
Source: Colliers, Savills, Knight Frank, Cushman Wakefield, CBRE, BCG analysis

Acquisition challenges: lack of targets with country-wide presence, except for Eurotorg

Estimation

			No. of outlets, 2017						
Company	Share of MT, 2017		Total Country	Minsk Region	Mogilev Region	Vitebsk Region	Grodno Region	Gomel Region	Brest Region
 евроопт	Eurotorg	~40%	500	167	72	55	60	80	66
 КОРОНА	Korona	~8%	36	22	2	6	1	✕	5
 АЛМИ	Almi	~5%	53	17	2	2	19	4	9
 ВІТАЛУР	Vitalur	~5%	46	44	1	✕	1	✕	✕
 РУБЛЁВСКИЙ СЕТЬ УНИВЕРСАМОВ	Rublevsky	~5%	74	56	5	2	6	4	1
 СОСЕДИ	Sosedni	~5%	76	56	5	6	✕	9	✕
 ГИППО	Gippo	~5%	11	9	1	✕	✕	1	✕
 БЕЛМАРКЕТ	Belmarket	~4%	70	39	18	1	6	2	4
 ProStore	Prostore	~3%	5	5	✕	✕	✕	✕	✕
 Санта	Santa	~3%	73	6	1	2	3	6	55

Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space and outlets (MART), company press-releases and expert interviews
Source: Belarus National Statistical Committee, Belarus Ministry of Antimonopoly Regulation and Trade, BCG market model

×

 NO stores

XX - No. of outlets below 10
XX - No. of outlets 10 and above

High import duties on parcels from abroad nearly hinder cross-border e-commerce development in Belarus

E-commerce regulation

Key characteristics

Import duties on parcels from abroad



High import duties on parcels from abroad create entry barriers for the development of international online e-commerce players in Belarus

- As of 14.04.2016 the allowance for duty-free import of goods for personal use sent via international parcels or express consignments is at 22 EUR and 10 kg for 1 recipient within 1 calendar month¹
- Parcels valued above 22 EUR and/or weighing more than 10 kg are considered for commercial use and are subject to import duties of 30% of the excess amount but not less than 4 EUR per kg
- In addition, each parcel is a subject to a customs fee to be paid for processing- generally ~5 EUR per parcel
- The allowances for duty-free import of goods from abroad are expected to be harmonized among EAEU² countries by 2021-22 and set at 200 EUR per recipient per month. However, member states of EAEU are entitled to increase allowances within their countries if necessary.






1. Presidential Decree No.40 dated February 11th, 2016 2. Eurasian Economic Union members: Belarus, Russia, Kazakhstan, Armenia, Kyrgyzstan
Source: Belarus regulatory documents, BCG analysis

Key Players Profiles





Top 5 players: strategy summary

	 Eurotorg	 Korona	 Almi	 Vitalur	 Rublevsky
Formats¹	<div><div>41%</div><div>23%</div><div>36%</div></div>	<div><div>2%</div><div>22%</div><div>76%</div></div>	<div><div>4%</div><div>53%</div><div>43%</div></div>	<div><div>12%</div><div>76%</div><div>12%</div></div>	<div><div>10%</div><div>85%</div><div>5%</div></div>
Regions	Uniform presence in all regions	Focus on Minsk city; 5-6 stores in Minsk, Vitebsk, Brest regions	Present in all regions, focus on Grodno	Almost exclusive focus on Minsk city	Focus on Minsk city; 1-6 stores in every other region
Price strategy	Europt Hi-Lo, Brusnichka EDLP Lowest prices vs competition Best price perception	Hi-lo price strategy Prices in line with country average, more premium perception	Hi-lo price strategy Prices in line with country average	Hi-lo price strategy Prices in line with country average	Hi-lo mixed with EDLP: froze prices on key consumer products via direct contracts with producers
Assortment specifics	Strong import network Focus on fruits and vegetables ~800 PL SKUs managed under multiple independent CPG brands Cooperates with Russian retail chains Lenta and Magnit on PL orders to decrease costs	Wide range of non-food products, own bakery and ready-to-eat categories No PL	Almi, Zakrama: own production, bakery, PL Spar: Fruit&Veg, "food to go", bakery, PL PL: Almi, I'm Happy, Vasanta etc.	Frozen and fresh fish (50 SKUs in every outlet), seafood, meat products, own bakery and ready-to-eat, Belarusian farm products PL: Vitalur (across categories)	CS: Focus on regular top-up assortment SM: Fruit&Veg, ready-to-eat, bakery, Belarusian products No PL
Commercial strategy	Known for promo games - weekly lottery with opportunity to win an apartment in Minsk; Bonstick collectible figures Loyalty card with 1-5% discounts depending on total purchases in previous month, regular promo catalogue	Loyalty card with 1-5% discount depending on accumulated spending over 90 days, regular promo catalogue, promo games (win prize or money)	Loyalty card across banners with 2-5% cashback depending on purchase amount Regular promo catalogue	Loyalty card with 2-7% discount depending on purchase amount, client days/weeks with discounts on everything, promo games (win prizes)	Loyalty card offering discounts on selected products Mobile app with digital coupons Regular promo catalogue
Future focus	Focus on convenience, expanding into rural areas	No public statement, expanding into SM and CS since 2015	Expanding to 60 Spar outlets in Belarus by 2020	Opening 7 new outlets and refurbishing 2 outlets in hypermarket format in Minsk in 2018-2019	New format supermarkets with focus on Fresh, 1K sq m area, >10K SKUs, focus on European design and European foods
Other	Owns online hypermarkets e-dostavka.by and gipermall.by, household appliance chain Techno Plus	Initial focus on shopping malls with hypermarkets - extended assortment under one roof	Owned by serial entrepreneur who used to own Almi in Russia and another retailer Viktoriya in Russia	One of exclusive importers of fish in Belarus; owns cargo transportation company	Discounts for disabled people, pensioners, large families; financial support to Association for the Disabled






1. Share of sales by format ■ Convenience Stores ■ Supermarkets ■ Hypermarkets

Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space and outlets (MART), company press-releases and expert interviews. Formats distribution: convenience stores - <400 m², supermarkets - 400-2,500 m², hypermarkets- >2,500 m². Source: BCG analysis, BCG market model



Top 6-10 players: strategy summary

Estimation

	 Sosedni	 Gippo	 Belmarket	 ProStore	 Santa
Formats¹	20% 64% 16%	9% 91%	17% 83%	100%	29% 71%
Regions	Focus on Minsk city; also present in Eastern regions	Focus on Minsk city	Focus on Minsk city, Minsk region and Mogilev; present in all regions	All stores in Minsk city	Focus on Brest region; present in all regions
Price strategy	Hi-lo price strategy Used to be one of the most expensive retailers 5 years ago, now average prices	Hi-lo price strategy Prices in line with country average	Hi-lo price strategy	Hi-lo price strategy	Hi-lo price strategy
Assortment specifics	3K-37K SKUs depending on the format Focus on fresh, ready-to-eat, ready-to-cook, bakery PL: Umny Vybor (across categories)	Wide selection of products, own bakery and ready-to-eat foods PL: Ochen (across categories)	Focus on top up assortment, ready foods, bakery PL: Belaya Khatka for food categories and Elpi for non-food	65K SKUs with high share of non-food, ready-to-eat and ready-to-cook categories, Fruit&Veg, Belarusian products	90% of range are food categories, with focus on frozen and fresh fish (>50 SKUs), regular top-up assortment, bakery, ready to eat No PL
Commercial strategy	Loyalty card with 1% cashback Regular promo catalogue Cross-promo with other businesses Co-branded credit card with Alpha Bank	Loyalty card with 5-10% discount on 1 purchase per month Personalized offers based on purchase history Regular promo catalogue Google Play app for kids	Loyalty card with 5% discount in few selected stores only Regular promo catalogue Multiple promo games - e.g. win an iPhone every day	Loyalty card with 1% cashback regular promo catalogue Cross-promos with restaurants and other retailers	Loyalty card with 5% discount Regular promo catalogue Up to 40% discount on ready-to-eat categories after 8pm
Future focus	Renovation of existing stores, developing PL, personalization of loyalty program	2 more hypermarkets with 6-7K sq m area to be built in Minsk and Vitebsk by end of 2019	Was acquired by player #7 Gippo	Opening 6th hypermarket in Minsk with 11K m ² area in 2018-2019; work on supermarket concept development	Plans to reach 100 stores by end of 2018
Other	Active SR position - e.g. launch of "silent cashiers" with deaf or hard of hearing cashiers	Acquired #8 player Belmarket in 2018; Belmarket expected to be kept as a separate banner	Defines all stores as "Convenience supermarkets"	Launched Retail academy program (6 months rotational paid internship) to attract talent	Part of Santa Impex group that owns strong brands Santa Bremor (fish and seafood) and Savushkin Product (dairy)

1. Share of sales by format  Convenience Stores  Supermarkets  Hypermarkets

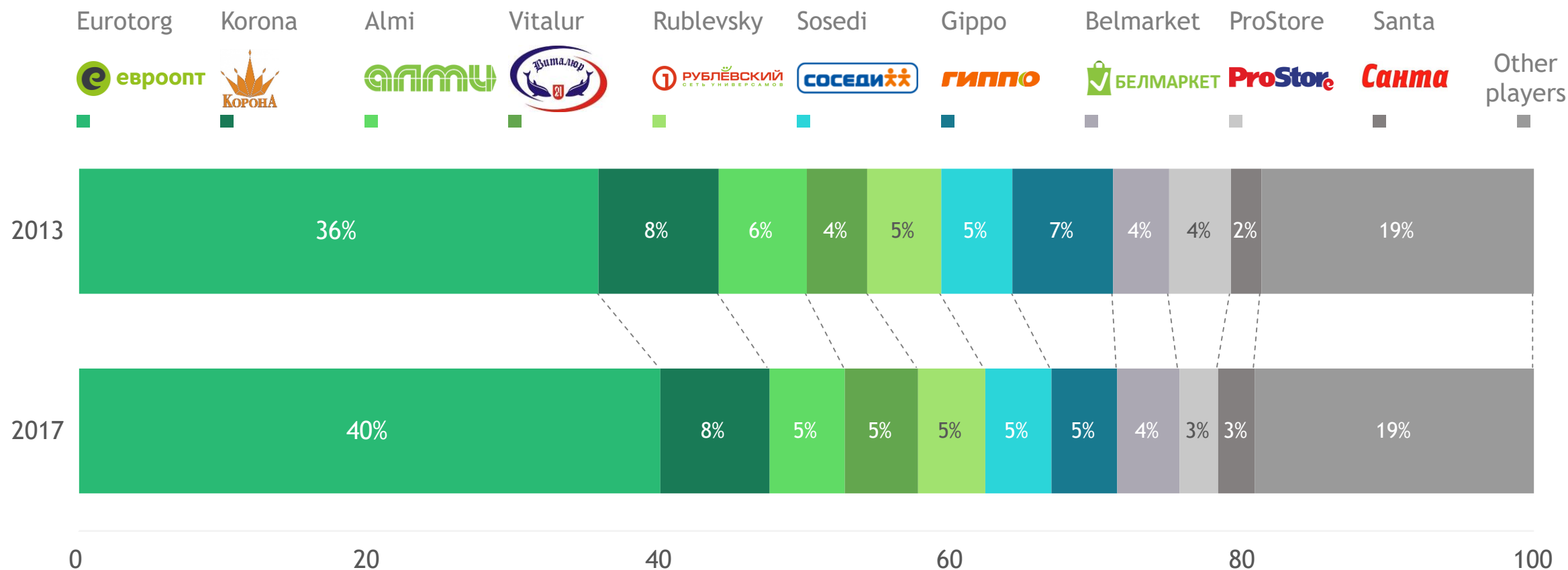
Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space and outlets (MART), company press-releases and expert interviews. Formats distribution: convenience stores - <400 m², supermarkets - 400-2,500 m², hypermarkets- >2,500 m²; Eurotorg stores are categorized based on retailers' own classification from May 2018; Source: BCG analysis, BCG market model



Key players market share stable within 2013-2017

The only two players with significant change are Eurotorg, which grew by 4p.p., and Gippo, which dropped by 2p.p.

Market share of key players in grocery retail sales, %



Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space and outlets (MART), company press-releases and expert interviews.
Source: BCG analysis, BCG market model

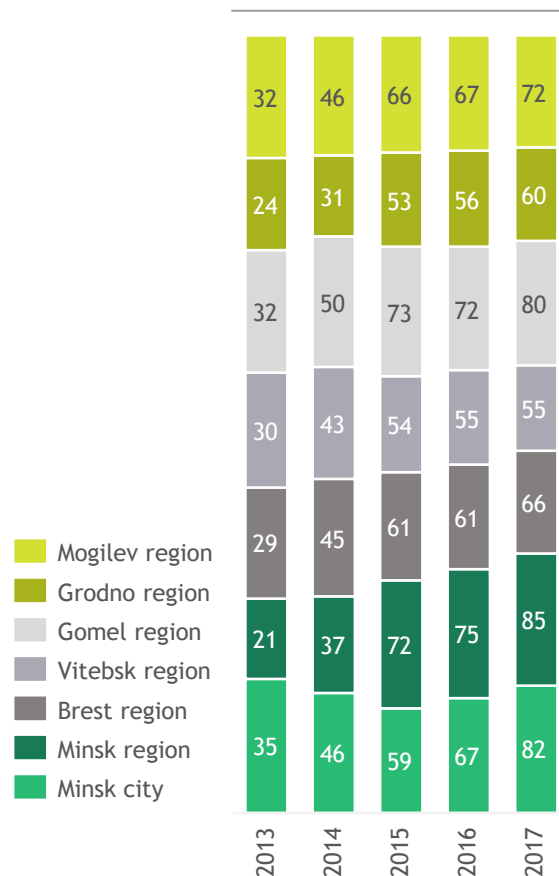


Top-5 players developed in all regions - except Vitalur, which focused on Minsk

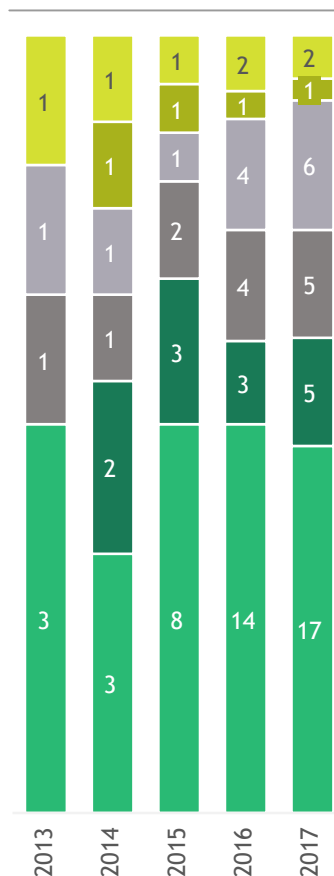
The evolution of the geographic footprint within Belarus for key players (I/II)

No. of outlets
by region

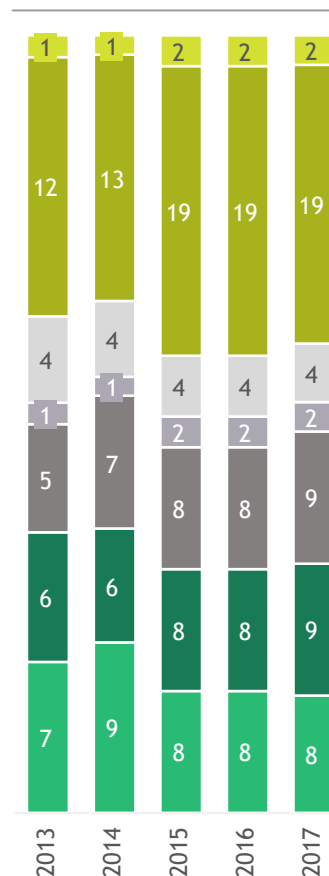
Eurotorg
 евроопт



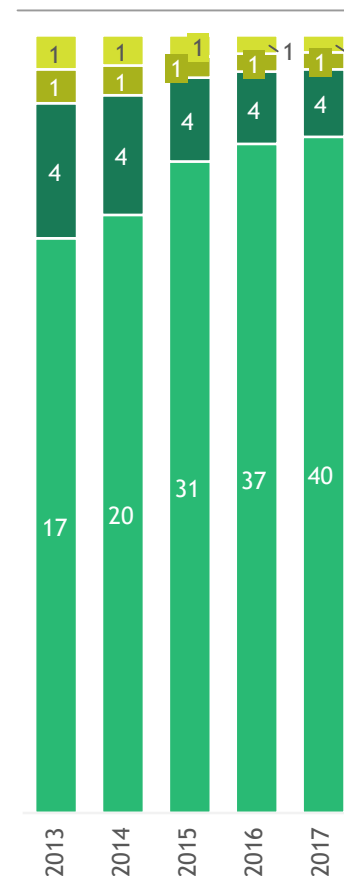
Korona
 КОРОНА



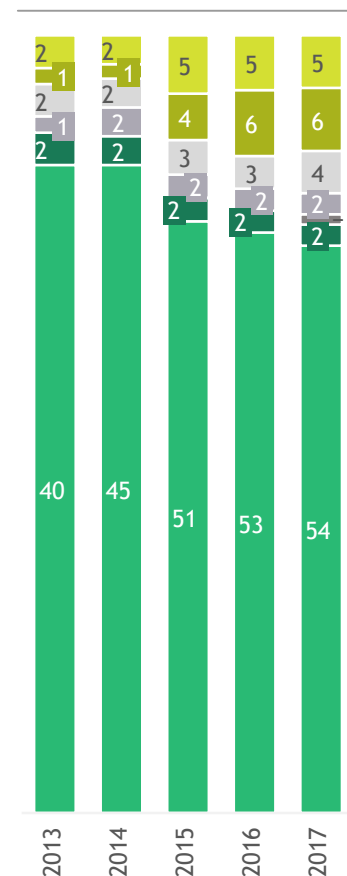
Almi
 алми



Vitalur
 ВІТАЛУР



Rublevsky
 РУБЛЁВСКИЙ
СЕТЬ УНИВЕРСАМОВ



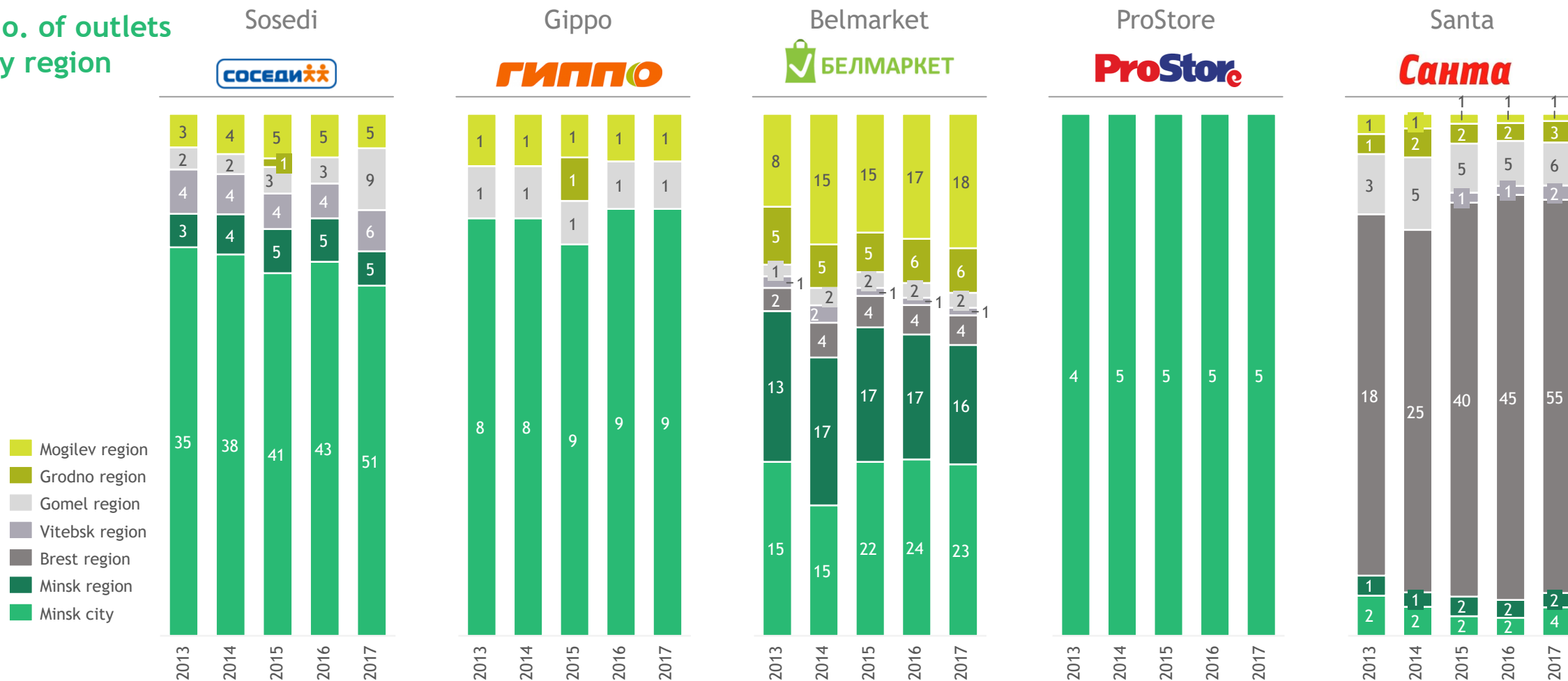
Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space and outlets (MART), company press-releases and expert interviews. Source: Belarus National Statistical Committee, Belarus Ministry of Antimonopoly Regulation and Trade, BCG market model



Players 6-10 remained in their regions - Sosedni and Gippo couldn't enter Grodno

The evolution of the geographic footprint within Belarus for key players (II/II)

No. of outlets
by region



Note: Analysis is based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space and outlets (MART), company press-releases and expert interviews

Source: Belarus National Statistical Committee, Belarus Ministry of Antimonopoly Regulation and Trade, BCG market model

Eurotorg is the largest player in Belarus with 40% market share

Eurotorg LLC



Company background

Key facts 2017

Sales (M BYN)	4,000-4,100
Market share of MT	40%
No. of outlets	500
Selling space ('000 m ²)	280
CAGR ('12-'17)	34%
No. of employees	~34,200
Ownership	Private, 3 Shareholders ¹

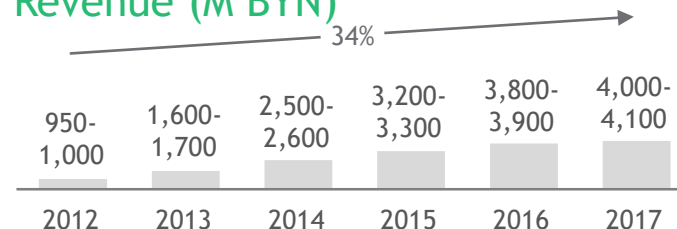
Formats²

	# of outlets
Hypermarkets	38
Supermarkets	77
Convenience stores	385

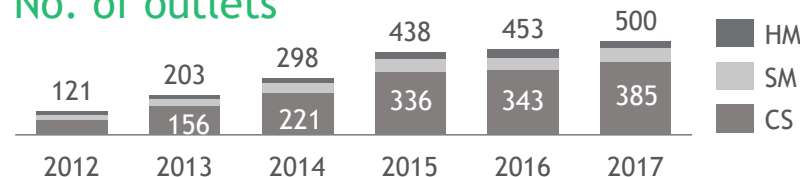
Banners



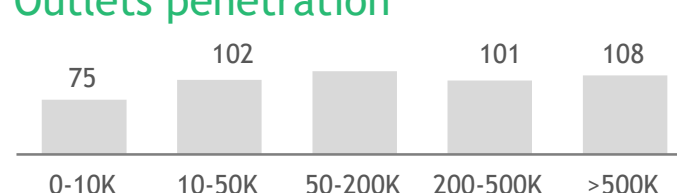
Revenue (M BYN)



No. of outlets



Outlets penetration



Cities
by population

Geographical presence

Regions	No. of outlets
Minsk city	82
Minsk region	85
Gomel	80
Mogilev	72
Brest	66
Grodno	60
Vitebsk	55



1. Sergey Litvin (49,75%), Vladimir Vasilko (49,75% share), Andrei Zubkou (0,5%). Sergey Litvin and Vladimir Vasilko are longterm business partners with a diversified asset portfolio that includes retail, alcohol, banking and agriculture; 2. Eurotorg stores are categorized based on retailers' own classification from May 2018

Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. CS - Convenience stores; HM - Hypermarkets; SM - Supermarkets; MT - Modern Trade. Source: BCG market model, BCG analysis

Eurotorg (Eurotorg LLC): strategy overview



History

1993: Launched as a wholesale business

1997: First retail store opened

2010: First Belarusian grocery retailer to achieve presence in all Belarusian regions

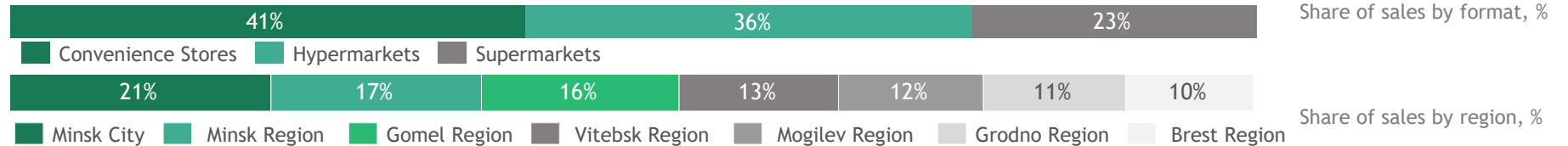
2012: 100 stores operated

2017: 500 stores operated by the end of 2017; ~350 M USD Eurobond placement; "Brusnichka" banner launch; 75 outlets in localities with population below 10,000

Expansion plans: Rural areas penetration (63 net stores opened with focus on rural areas in Jan-April 2018)



Sales concentration 2017



Customer promise

Customer proposition: improving quality of life for Belarusian residents by offering the best prices and rigorous range

Euroopt: high-low pricing strategy; **Brusnichka:** every day low pricing (EDLP) strategy

Owns online hypermarkets e-dostavka.by and gipermall.by, household appliance chain Techno Plus

Assortment focus: better access to import goods, best Fresh infrastructure which leads to better purchasing power and lower prices

Private labels Euroopt: ~800 SKU, ~10% of total sales; multiple private labels managed as independent CPG¹ brands

Private label banners: Gusto, Oggo, Café Primero, Britton, Khmel'nov etc. - some very strong on national scale

Combines Private Label purchase with large Russian retailers (Lenta, Magnit) to get better costs and margins



Commercial strategy

Loyalty Program: Discount card E+ allowing up to 5% discount depending on total monthly purchases

Promo types: "Krasnaya Tsena" weekly catalogue with up to 50% discounts

Promo Games: Udacha v Pridachu - weekly lottery with opportunity to win apartment in Minsk if certain SKUs are bought; collectible "Bonsticks" toys that are received with every 15 BYN purchase; **Cross-promos** with Sbarro and Burger King



Supply chain

Real estate: ~80% of outlets leased, ~20% owned

Transport: mixed (~200 trucks owned, the rest leased)

3 DCs: 2 owned, 1 leased; cumulative 77K m² DC capacity + 13.5K m² leased Fruit&Veg capacity

“We are ready to open a store in any locality with population above 200 people” — Eurotorg website



Other

EBITDA (margin), 2017: 372M BYN (9.5%)

"Brand of the year 2017" award in the category "Food and non-food products retail"

Social responsibility: \$4M invested in sponsor projects (including Sport support) in 2016



Euroopt: store impressions



Source: Store visits, press search



Brusnichka: store impressions



Source: Store visits, press search



Estimation

Korona is the 2nd largest player with an 8% market share

Tabak-invest company

Company background

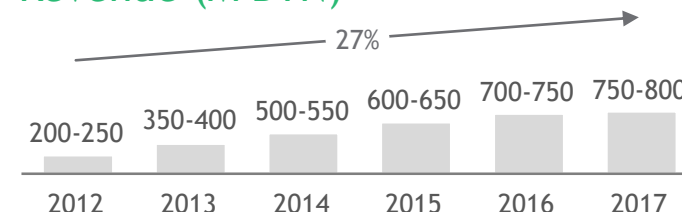
Key facts 2017

Sales (M BYN)	750-800
Market share of MT	8%
No. of outlets	36
Selling space ('000 m ²)	71
CAGR ('12-'17)	27%
No. of employees	~10,000
Ownership	Private, owner Pavel Topuzidis ¹

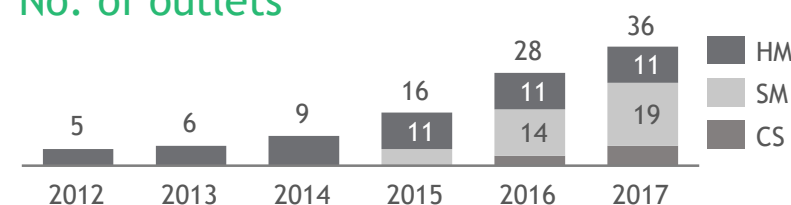
Formats

		# of outlets
Hypermarkets	>2,500 m ²	11
Supermarkets	400-2,500 m ²	19
Convenience stores	<400 m ²	6

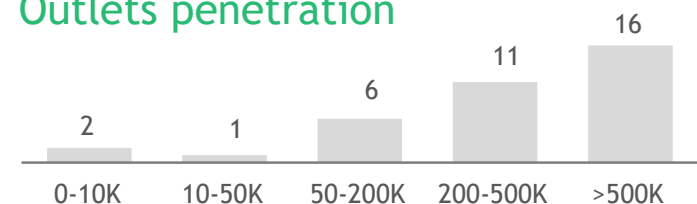
Revenue (M BYN)



No. of outlets



Outlets penetration



Cities
by population

Geographical presence

Regions	No. of outlets
Minsk city	16
Minsk region	6
Vitebsk	6
Brest	5
Mogilev	2
Grodno	1



1. Korona is a part of Tabak-Invest company, the largest private tobacco producer & importer in Belarus owned by Pavel Topuzidis, one of the most influential businessman in Belarus

Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. CS - Convenience stores; HM - Hypermarkets; SM - Supermarkets; MT - Modern Trade. Source: BCG market model, BCG analysis

Korona: strategy overview



History

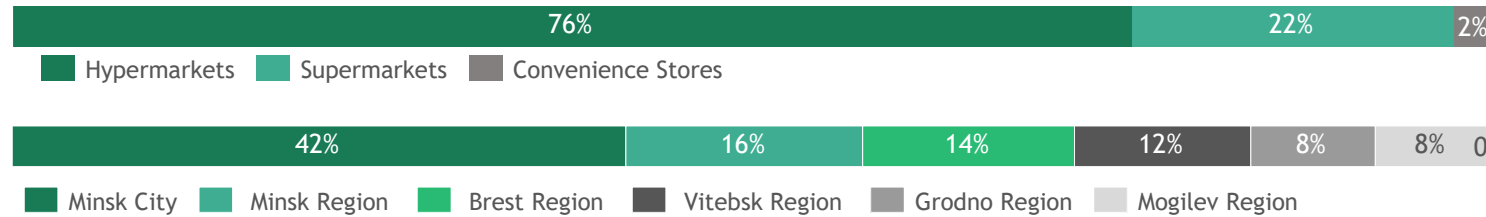
First shopping mall opened in 2006 in Minsk, 11 shopping malls by 2015

"Shop-in-shop" mall concept: grocery hyper, consumer electronics & appliances, apparel & footwear, entertainment & food - all under one roof

As of 2015 expansion in grocery in smaller format - supermarkets & convenience stores



Sales concentration 2017



share of grocery sales by format, %

share of grocery sales by region, %



Customer promise

Customer promise: a wide range of food and non-food products, high level of service, high quality products

Assortment focus: own production of bakery & ready-to eat categories for hypers; regular top-up assortment (dairy, meat, bread) for supers

No private label

Pricing: in line with country average for Modern Trade grocery



Commercial strategy

Loyalty program (started in 2014) with up to 5% discount card based on accumulated purchases; card price is 2 BYN

High-low price strategy: weekly price reductions up to 50 % for 3 day periods; coupons for the next purchase

Contests & games: purchase-register-win prize or money ("Korona Superprize", "Time of wonderful moments" etc.)

Lifestyle magazine Korona: launched every 2 months, includes recipes, Korona ads, and thematic articles



Supply chain

Real estate: shopping malls owned, supermarkets leased

Transport mixed, mostly owned

DC owned



Other

No public statements about further expansion plans

No. of employees per shopping mall: ~600-800 people

- “

Villages and country regions should have the same level of service

— Pavel Topuzidis, CEO Tabak-Invest



Korona: hypermarket store impressions

Source: Press search





Korona: supermarket store impressions

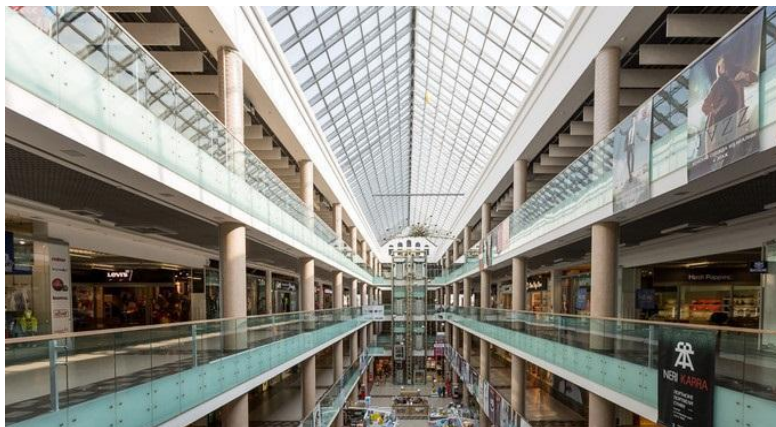
Source: Store visits





Korona: Castle shopping mall: store impressions

Note: Castle is a Korona flagship store and one of the largest shopping centers in Belarus with 39,000 m² of selling space
Source: Press search



Almi is the 3rd largest player with a 5% market share

Unifood CJSC

Company background

Key facts 2017

Sales (M BYN)	500-550
Market share of MT	5%
No. of outlets	53
Selling space ('000 m ²)	64
CAGR ('12-'17)	21%
No. of employees	~4,000
Ownership	CJSC, Alexander Zaribko ¹

Formats

		# of outlets
Hypermarkets	>2,500 m ²	5
Supermarkets	400-2,500 m ²	32
Convenience stores	<400 m ²	16

Banners



37

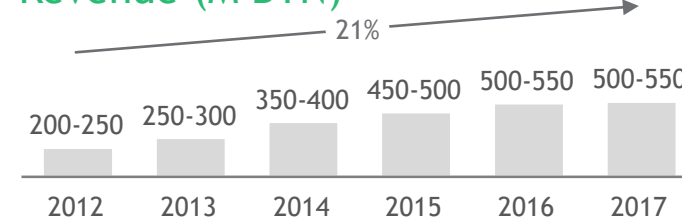


16

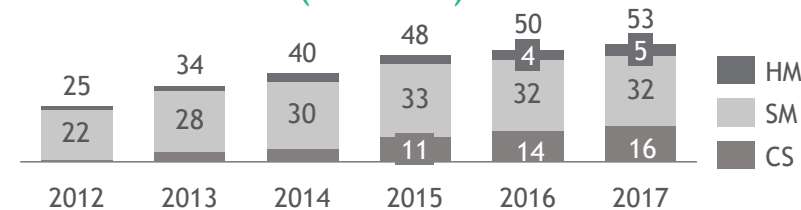


2

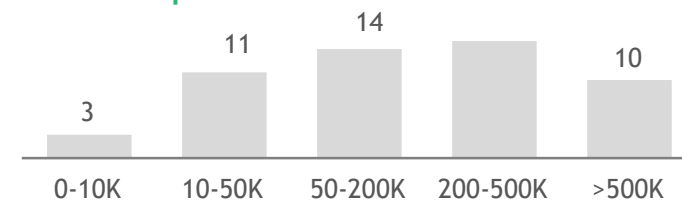
Revenue (M BYN)



No. of outlets (Belarus)



Outlets penetration



Cities
by population



Geographical presence

Regions	No. of outlets
Grodno	19
Brest	9
Minsk region	9
Minsk city	8
Gomel	4
Vitebsk	2
Mogilev	2

1. Alexander Zaribko is a serial entrepreneur in retail business - started in Russia as co-founder of Viktoriya supermarkets chain (acquired by Dixy in 2011), sold Russian part of Almi business (40 stores) in 2016 and nowadays focuses solely on Belarusian retail business.

Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. CS - Convenience stores; HM - Hypermarkets; SM - Supermarkets; MT - Modern Trade

Source: BCG market model, BCG analysis

Almi (Unifood CJSC): strategy overview

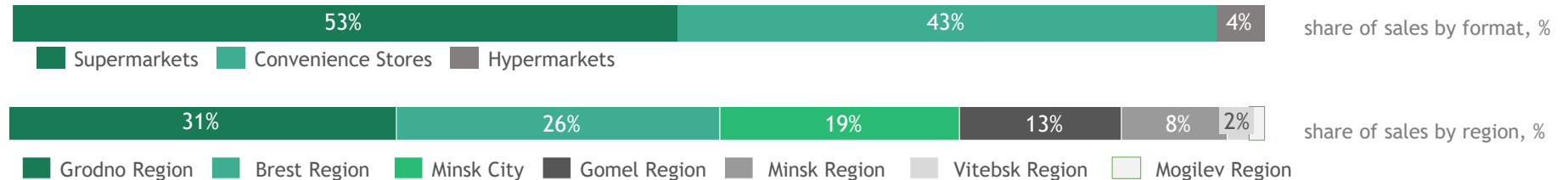


History

Mr.Zaribko is a serial entrepreneur in the retail business: co-founder of the Viktoriya supermarkets chain (acquired by Dixy in 2011); founder & owner of Almi with ~40 outlets in Russia & ~40 outlets in Belarus by 2014; owner of Zakrama convenience stores as of 2005
In 2015: Bonds placement to accelerate Almi Belarus growth, however did not grow as planned (56 outlets target vs. 39 actuals in 2017)
In 2016: Focus solely on Almi Belarus, as Almi Russia acquired by new YourPark retailer
In 2017: Spar exclusive license to open both company-owned and independent retailer run stores; 1st Spar opened Minsk (Aug'17)
Expansion plans: 60 Spar outlets by 2020 in top Belarusian cities



Sales concentration 2017



Customer promise

Almi's Customer Promise: optimal assortment of high quality goods at fair prices => assortment focus: own production of ready-to-cook & ready-to-eat bakery categories, as well as bread & bakery made in-house
SPAR assortment focus: Fruit&Veg, "food to go", in-house fresh bakery, ~100 private label including European SPAR SKUs
Zakrama: compact convenience stores (70-120 m2; 1500 SKUs) in small cities 2-50K population => assortment focus: in-house bakery and PL
Private labels for 3 banners: "Almi", "I'm Happy", "Vasanta", "Gurt", "My Village" etc.



Commercial strategy

Loyalty program Vygoda for 3 banners: earn bonuses with every purchase and use bonuses as discounts for the next purchase
High-low price strategy: weekly promo digest with price reductions of 15-50% for a 3 day period



Supply chain

Real estate: mostly leased, some trade centers owned
 Transport mixed, mostly owned
 DC 15,000m², owned

— “ —
 Our main goal is to meet our customers needs and make them happy
 — Almi website



Other

Net profit: \$313K (2014); \$327K (2013)



Almi: store impressions

Source: Store visits





Zakrama: store impressions

Source: Press search





Spar: store impressions

Source: Store visits





Vitalur is the 4th largest player with a 5% market share

Vitalur ALC

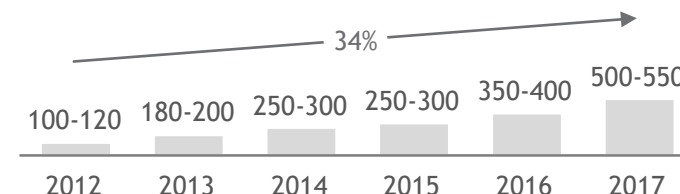
Company background

Key facts 2017

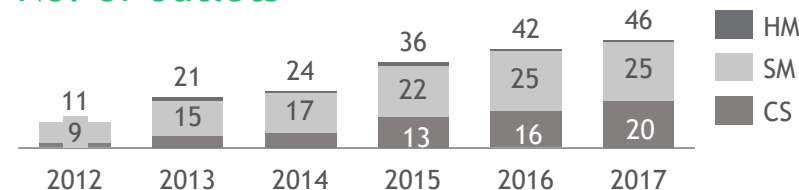
Sales (M BYN)	500-550
Market share of MT	5%
No. of outlets	46
Selling space ('000 m ²)	30
CAGR ('12-'17)	34%
No. of employees	~4,800
Ownership	ALC, founder Alexander Yatsuk ¹

Formats		# of outlets
Hypermarkets	>2,500 m ²	1
Supermarkets	400-2,500 m ²	25
Convenience stores	<400 m ²	20

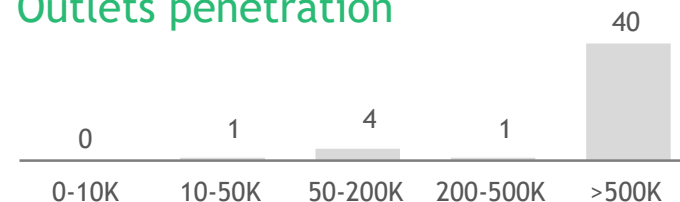
Revenue (M BYN)



No. of outlets



Outlets penetration



Cities by population

Geographical presence

Regions	No. of outlets
Minsk city	40
Minsk region	4
Mogilev	1
Grodno	1



1. Vitalur is a part of Vitalur Ltd., founded and managed by Alexander Yatsuk; original focus of the company since its founding in 1995 was on food distribution (fish and seafood product import), then it started opening its own stores in 2005;

Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. CS - Convenience stores; HM - Hypermarkets; SM - Supermarkets; MT - Modern Trade. Source: BCG market model, BCG analysis

Vitalur: strategy overview

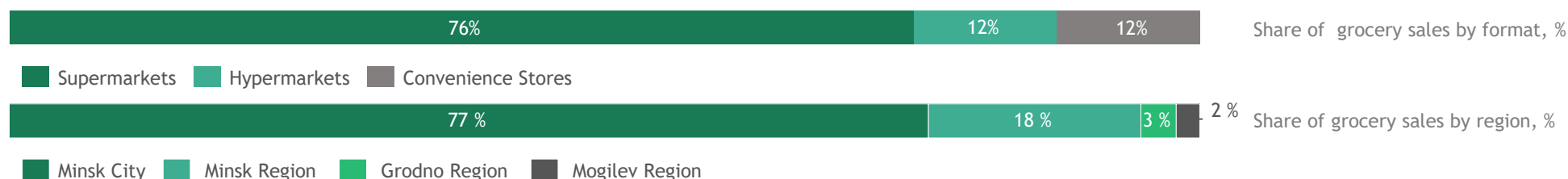


History

1995: company established as a fish and seafood importer and named after the founder's 2 sons
2005: first "Vitalur" outlet opened in Minsk (store size ~200m²)
2007-2010: "Vitalur" is one of 29 companies that has exclusive rights to import fish to Belarus
2013: opening of first larger format stores in Minsk (1,000-1,500m²) and Soligorsk (3,600m²)
2014-2017: opening stores of different format, expansion focused on Minsk only
Expansion plans: open 7 new outlets in Minsk in 2018-2019 and refurbish 2 outlets - all in hypermarket format



Sales concentration 2017



Customer promise

Multi-format chain with stores that range all the way from 27m² to 3,600m² but always offering high quality fish
Customer promise: a wide range of fish and seafood products, high quality, affordable prices, friendly atmosphere, and service
Assortment focus: frozen and fresh fish (50SKUs in every outlet), fish fillets, sea-food, meat products, own bakery and ready-to eat categories, products from Belarusian farms
Private label: Vitalur- for food and non-food products (active development)



Commercial strategy

Loyalty program: 2-7% discount depending on purchase amount
High-low price strategy: biweekly price reductions up to 50% for 2 week periods
Partnership program: loyalty card provides a discount at more than 35 partner businesses (e.g. cafe)
"Client days/weeks" (e.g. every Wednesday 7% on everything)
Promo games: purchase-register-win prize or money ("Dream Kitchen", "Game of Vitalur" etc.)



Supply chain

Real estate: hypermarket owned, supermarkets and convenience stores leased
Transport mixed, mostly owned: 22 refrigerator trucks and 24 insulated trucks
Vitalur provides cargo transportation (regions in Belarus, Lithuania, Latvia, Estonia, Poland, Germany, Russia)
DC owned (1,500m²)



Other

Company is managed by its founder and his 2 sons Vitaliy and Yuriy
 Active in social responsibility projects: e.g. "Meter of Kindness" (collection of goods donations for hospitals / orphanages)



Customers are still coming back to our shops for the best fish and bakery products

— Aleksandr Yatsuk, Vitalur CEO



Vitalur: supermarket store impressions

Source: Store visits





Vitalur: convenience store impressions

Source: Store visits



Rublevsky is the 5th largest player with a 5% market share

RTL Holding



Estimation

Company background

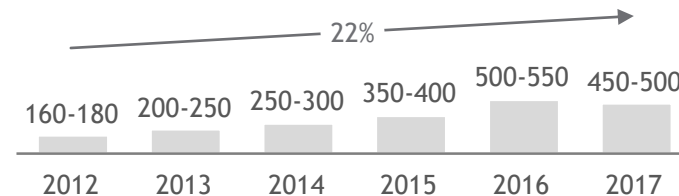
Key facts 2017

Sales (M BYN)	450-500
Market share of MT	5%
No. of outlets	74
Selling space ('000 m ²)	52
CAGR ('12-'17)	22%
No. of employees	~4,000
Ownership	Private Aleksy Loyko Georgy Rogazinsky ¹

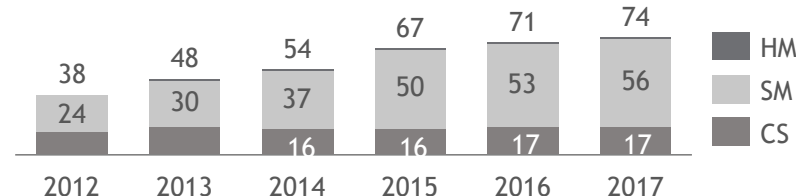
Formats

		# of outlets
Hypermarkets	>2,500 m ²	1
Supermarkets	400-2,500 m ²	56
Convenience stores	<400 m ²	17

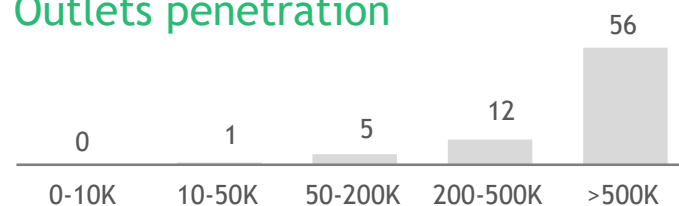
Revenue (M BYN)



No. of outlets



Outlets penetration



Cities
by population

Geographical presence

Regions	No. of outlets
Minsk city	54
Grodno	6
Mogilev	5
Gomel	4
Vitebsk	2
Minsk region	2
Brest	1



1. Rublevsky is a part of RTL (Retail Trading Logistics) Holding that encompasses Mostra Group (importer of international food products), "Tut&Tam Logistics" (provision of warehouse and distribution logistics services), and the Burger King franchise in Belarus;

Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. CS - Convenience stores; HM - Hypermarkets; SM - Supermarkets; MT - Modern Trade. Source: BCG market model, BCG analysis

Rublevsky: strategy overview

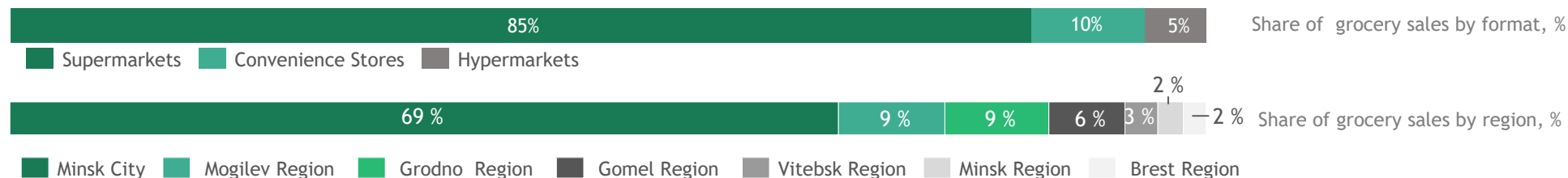


History

2003: first convenience store in Belarus - "Rublevsky" opened in Minsk
 2008, 2011, 2013, 2015: RTL holding receives 4 tranches of credit from the International Finance Corporation to finance development on the Belarusian market
 2009: chain expands beyond Minsk, opening first store in Gomel
 2010: launched discounter chain "Bazar" which operated for 3 years before being closed down
 2017: new format supermarkets launched (focus on fresh, 1,000m² area, >10K SKUs, European design, European ready foods, food tastings)
 Expansion plans: announces plans to open new outlets in Minsk and regions



Sales concentration 2017



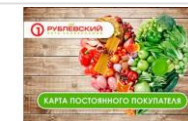
Customer promise

Customer promise: walking distance from home (outlets located in residential areas), balanced range at affordable prices, focus on service
Range focus: regular top-up assortment (dairy, meat, bread) for convenience outlets; Fruits&Veg, ready-to-eat, in-house fresh bakery for new format supermarkets; Belarusian origin products (up to 80% of the assortment in some categories)
No private label
Pricing high-low mixed with EDLP: froze prices on key consumer products below average market prices (granted via direct contracts with producers)



Commercial strategy

Discount program (started in 2015): special price offers for card holders; 50% of buyers are estimated to hold the discount card
 eSkidki mobile app: digital discount coupons on certain range of products that can be used together with discount card
 Weekly **price discounts** up to 50% for 6 days periods (up to 250 SKUs)



Supply chain

Real estate: 40% built by "Wonderland Retail" and owned, 60% leased
 Transport owned and leased
 Distribution center leased (9,000m²)

“The goods are made by producers, we are the ones who sell emotions”
 — Viktor Balashov, Rublevsky CEO



Other

Social Responsibility: everyday 3% discount during certain hours for disabled people, pensioners, and large families, and one day per week 7% discount for pensioners; hockey club sponsorship, financial support to Association for the disabled, etc.

Rublevsky: store impressions





Estimation

Sosedni is the 6th largest player with a 5% market share

Libretik JLLC

Company background

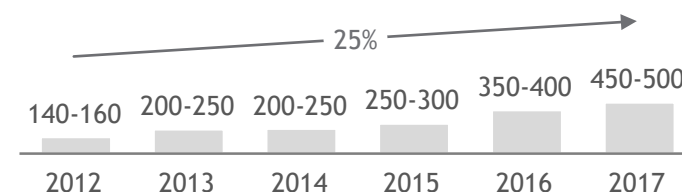
Key facts 2017

Sales (M BYN)	450-500
Market share of MT	5%
No. of outlets	76
Selling space ('000 m ²)	41
CAGR ('12-'17)	25%
No. of employees	~3,000
Ownership	Private, Alma Jauntsemene ¹

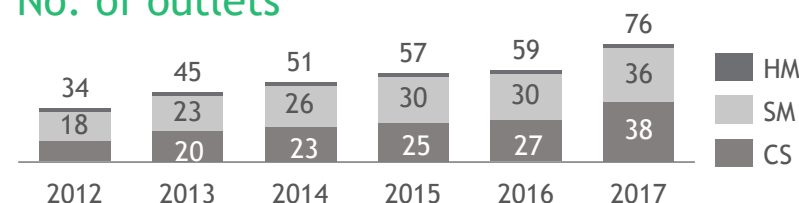
Formats

		# of outlets
Hypermarkets	>2,500 m ²	2
Supermarkets	400-2,500 m ²	36
Convenience stores	<400 m ²	38

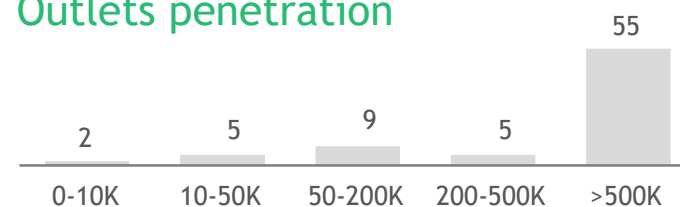
Revenue² (M BYN)



No. of outlets



Outlets penetration



Cities
by population









Geographical presence

Regions	No. of outlets
Minsk city	51
Gomel	9
Vitebsk	6
Mogilev	5
Minsk region	5



1. Alma Jauntsemene is a serial Lithuanian investor in retail and Horeca businesses, who also owned the Tropinka convenience store chain (rebranded as Sosedni in 2016), Frutimport food distribution company, Pizza Tempo and Vasilki restaurants in Belarus; 2. Revenue estimates do not include Zorina stores as they are not attributed to Modern Trade; Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. CS - Convenience stores; HM - Hypermarkets; SM - Supermarkets; MT - Modern Trade. Source: BCG market model, BCG analysis

Sosedi: strategy overview

	History	<p>2001: First supermarket Sosedi opened in Minsk</p> <p>2002-2010: Expansion focused on Minsk and Minsk region, with stores having smaller formats (convenience stores or supermarkets)</p> <p>2011-2012: Opening of 2 hypermarkets in Minsk; these are the only hypermarkets Sosedi has</p> <p>2013: Started expansion from Minsk region to the biggest cities of Eastern Belarusian regions</p> <p>2017: Rebranding: new logo, corporate identity, category management introduction, active use of new equipment in stores and DCs</p> <p>2017: Discussed possible acquisition with Belmarket, but could not agree on the price</p>
	Sales concentration 2017	<div><div><div><div></div><div>64%</div></div><div><div></div><div>20%</div></div><div><div></div><div>16%</div></div></div><div>Share of sales by format, %</div><div><div>Supermarkets</div><div>Hypermarkets</div><div>Convenience Stores</div></div></div> <div><div><div><div></div><div>67 %</div></div><div><div></div><div>16 %</div></div><div><div></div><div>7 %</div></div><div><div></div><div>6 %</div></div><div><div></div><div>4 %</div></div></div><div>Share of grocery by region, %</div><div><div>Minsk City</div><div>Gomel Region</div><div>Mogilev Region</div><div>Minsk Region</div><div>Vitebsk Region</div></div></div>
	Customer promise	<p>Customer promise: a wide range of food and non-food products, high level of service, high quality products</p> <p>Range: from 3K SKUs in Convenience stores (focus on regular top-up assortment: dairy, meat, bread) to 37K SKUs in Hypermarkets (including in-store bakery production, ready-to eat & ready-to-cook categories in Supermarkets and Hypermarkets)</p> <p>Private label: "Clever choice" - for food and non-food products (active development)</p> <p>Pricing: used to be one of the most expensive chains 5-6 years ago, now in line with country average for Modern Trade grocery</p> 
	Commercial strategy	<p>Loyalty program (started in 2014): earn bonuses with every purchase to use for the next purchase</p> <p>High-low price strategy: biweekly price reductions up to 50 % for 2 week periods</p> <p>Cross-promo with other businesses: Sosedi loyalty card provide a discount at beauty salon, fitness club, etc.</p> <p>Co-branded credit/debit card with Alfa-Bank: get 4 times more bonuses</p> 
	Supply chain	<div><div>Real estate: owned and rented</div><div>Transport mixed, mostly leased</div><div>DC leased (5,000m²)</div></div> <div><div>“</div><div>We are a store you can come to in your slippers</div><div>”</div></div> <div>— Alma Jauntsemene, Sosedi co-owner</div>
	Other	Active SR position: e.g. launch of "silent cashiers" (with deaf or hard of hearing cashiers)

“ We are a store you can come to in your slippers

— Alma Jauntsemene, Sosedi co-owner



Sosedni: supermarket store impressions

Source: Store visits, press search





Sosedni: convenience store impressions

Source: Store visits, press search



Gippo is the 7th largest player with a 5% market share

Belvillesden IP company

ГИППО

Estimation

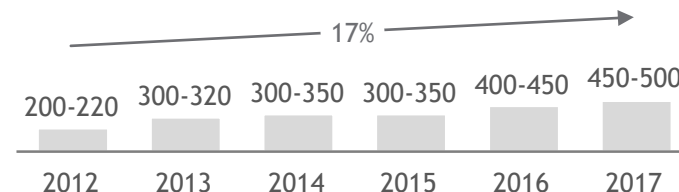
Company background

Key facts 2017

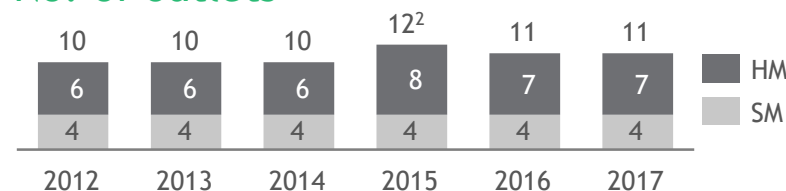
Sales (M BYN)	450-500
Market share of MT	5%
No. of outlets	11
Selling space ('000 m ²)	38
CAGR ('12-'17)	17%
No. of employees	~3,600
Ownership	Private, owner Oleg Baranovskiy ¹

Formats		# of outlets
Hypermarkets	>2,500 m ²	7
Supermarkets	400-2,500 m ²	4

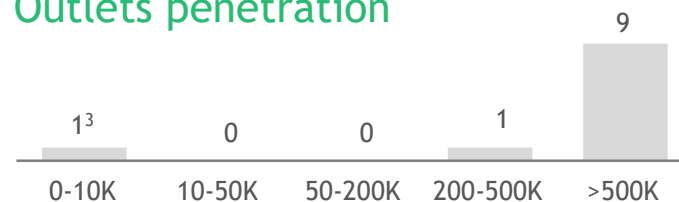
Revenue (M BYN)



No. of outlets



Outlets penetration



Cities
by population

Geographical presence

Regions	No. of outlets
Minsk city	8
Minsk region	1
Gomel	1
Mogilev	1



In March 2018, it was announced that Belvillesden IP has acquired #8 player **Belmarket**, which would make Belvillesden #2 Modern trade player in Belarus after integration

1. Belvillesden IP (UK) also manages Momo shopping center in Minsk. Oleg Baranovskiy is the 58th most successful businessmen in Belarus 2017, and also owns Aquapromresource (distribution of fish and seafood products) and Belhimenergo (maintenance in the oil & gas sector) companies; 2. HM in Grodno was opened in 2015 and closed after 6 months; 3. 1 km from Minsk; Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. HM - Hypermarkets; SM - Supermarkets; MT - Modern Trade. Source: BCG market model, BCG analysis

Gippo (Belvillesden IP): strategy overview



History

2005: Opened first hypermarket in Minsk

2008-2010: Expanded to Mogilev and Gomel; opened hypermarket in Grodno in 2015 but it closed after 6 months, unable to attract sufficient traffic

2009-2012: Expanded to supermarkets; however, focus on stores with selling space of ~4000 m² has been the most economically effective for Gippo

2018: Purchased #8 player Belmarket in 2018, which plays in smaller formats; Belmarket expected to be kept as a separate banner

Expansion plans: 2 more hypermarkets with selling space of 6000-7000 m² area to be built by the end of 2019 - in Minsk and in Vitebsk



Sales concentration 2017



Customer promise

Mission to become customer's Favorite store, **motto** "I love it and that's it!"

Key values are quality & freshness, customer care, trust, team, and continuous improvement

Wide selection of products, own bakery and own production of ready-to-eat foods

Strong **Private Label** "Ochen!" (meaning "Very") across different categories; 10-15% cheaper than branded products



Commercial strategy

High-low **price strategy**: promo catalogue issued every 3 weeks, with price reductions up to 50% for 3 days

Loyalty card "Asoba" offering differentiated discount depending on customer spend the previous month

Targeted offers for loyalty card owners based on previous purchases

Google Play app for kids - collect a virtual collection of dinosaurs in Gippo stores



Supply chain

Real estate owned (including Momo shopping mall), mostly standalone buildings that were built by Gippo

Transport mixed, mostly leased

DC leased (4,000 m²)



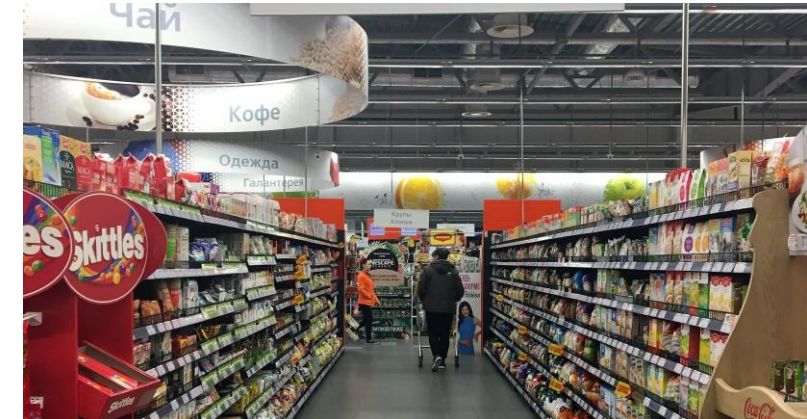
Other

"Brand of the year 2017" award in the category "Food and non-food products retail (hypermarkets)" - silver award

ГИППО

Gippo: store impressions

Source: Store visits





Estimation

Belmarket is the 8th largest player with a 4% market share

BelMarketCo IOOO (acquired by Belvillesden IP in 2018)

Company background

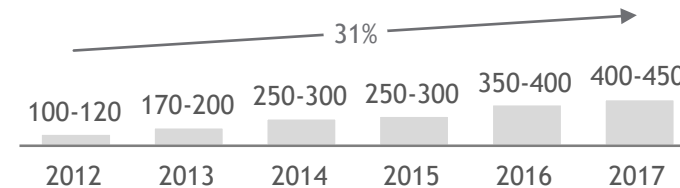
Key facts 2017

Sales (M BYN)	400-450
Market share of MT	4%
No. of outlets	70
Selling space ('000 m ²)	40
CAGR ('12-'17)	31%
No. of employees	~3,500
Ownership	A1 investment company, part of Alpha Group (Mikhail Fridman) ¹

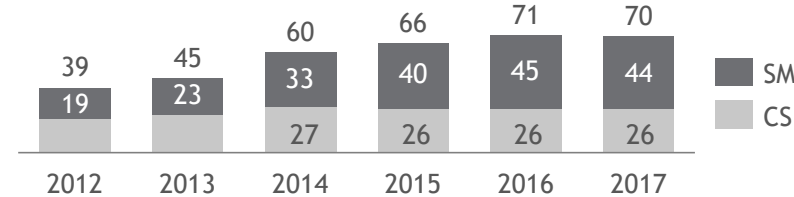
Formats

		# of outlets
Supermarkets	400-2,500 m ²	44
Convenience stores	<400 m ²	26

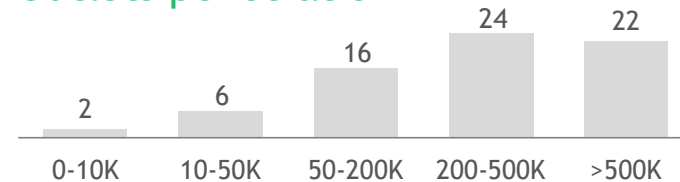
Revenue (M BYN)



No. of outlets



Outlets penetration



Cities
by population

Geographical presence







Regions	No. of outlets
Minsk city	22
Mogilev	18
Minsk region	17
Grodno	6
Brest	4
Gomel	2
Vitebsk	1



1. Mikhail Fridman is a Russian businessman who owns 47.9% of the largest retailer in Russia - X5 Retail Group; owns Alpha Bank and Beeline (largest private bank and Top 3 Telecom in Russia)

Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. CS - Convenience stores; SM - Supermarkets; MT - Modern Trade. Source: BCG market model, BCG analysis

Belmarket: strategy overview

	History	<p><u>2007</u>: The first Belmarket store opened in Bobruisk. The original plan was to create a network of 128 stores within a 5-7 year investment cycle for subsequent sale</p> <p><u>2008</u>: Acquired a controlling stake in two supermarket chains in Mogilev - Arma and Voskhod</p> <p><u>2009</u>: Belmarket receives a \$16M International Finance Corporation credit to develop a Belarusian national retailer network</p> <p><u>2012</u>: Belmarket reached 39 stores; management announced plans to exit the investment within 2-3 years</p> <p><u>2018</u>: Belmarket purchased by Belvillesden IP, which also owns #7 player Gippo; at the time of sale, the retail chain consists of 71 stores</p>
	Sales concentration 2017	<div> <div>83%</div> <div>17%</div> </div> <div>Share of sales by format, %</div> <div> <div>Supermarkets</div> <div>Convenience Stores</div> </div> <div> <div>33%</div> <div>27%</div> <div>16%</div> <div>10%</div> <div>9%</div> <div>3%</div> <div>1%</div> </div> <div>Share of sales by region, %</div> <div> <div>Minsk City</div> <div>Minsk Region</div> <div>Mogilev Region</div> <div>Brest Region</div> <div>Grodno Region</div> <div>Gomel Region</div> <div>Vitebsk Region</div> </div>
	Customer promise	<p>Belmarket doesn't differentiate its stores by format - all of them are positioned as "Convenience supermarkets"</p> <p>Targeted at customers who "prefer to save time and money in a comfortable setting"</p> <p>Key values are convenience, service, wide range, freshness, and reasonable prices</p> <p>Has bakery, ready foods section, and café at selected stores</p> <p>Cross-category Private Labels "Belaya Khatka" for food and "Elpi" for non-food - launched in 2015</p>
	Commercial strategy	<p>High-low price strategy: weekend promo discount on selected items</p> <p>Discount card very limited: 5% discount in few selected stores only; 3% discount at specific time for disabled, pensioners, multi-child families</p> <p>Multiple promo games - e.g. win an iPhone X every day</p>
	Supply chain	<p>Multiple growth models - looking to purchase land / premises, lease premises of 350-1000m², make franchising agreement</p> <p>Transport mixed, mostly leased</p> <p>3,000m² DC leased in Hatezhino (Minsk region)</p>
	Other	<p>Before deal with Gippo, Belmarket was Sosed's (#4 player) M&A target, but requested price was too high</p>





Belmarket: convenience store impressions

Source: Store visits





Belmarket: supermarket store impressions

Source: Store visits



ProStore is the 9th largest player with a 3% market share

Triple Holdings

Estimation

Company background

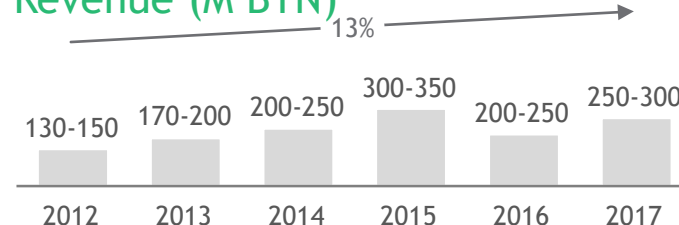
Key facts 2017

Sales (M BYN)	250-300
Market share of MT	3%
No. of outlets	5
Selling space ('000 m ²)	26
CAGR ('12-'17)	13%
No. of employees	~1,500
Ownership	Private, owner Yuri Chizh ¹

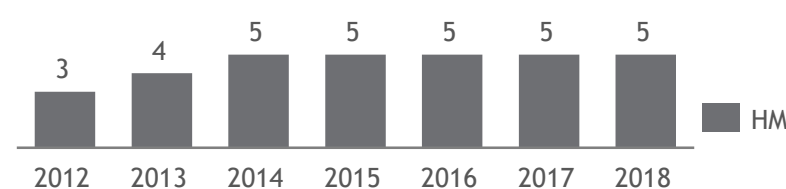
Formats

		# of outlets
Hypermarkets	>2,500 m ²	5

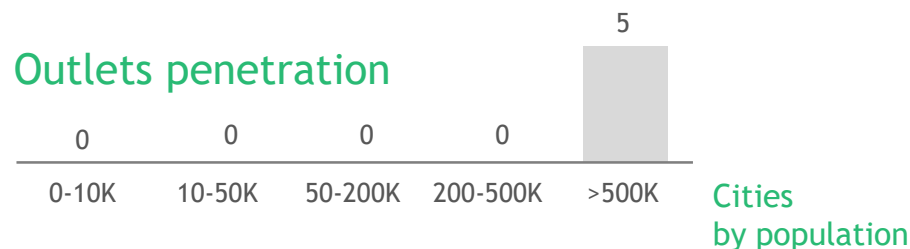
Revenue (M BYN)



No. of outlets



Outlets penetration



Geographical presence

Regions	No. of outlets
Minsk	5



1. ProStore is a part of Triple Holdings: ProStore, "Triple" (wholesale oil products trade), SC "Triple-Agro" (agriculture), JV "AquaTriple" (beverages), football club "Dinamo" (Minsk) and catering, wellness, tourism, pharmaceutical, real estate industries; Yuri Chizh is one of the richest and most influential businessmen in Belarus, however, he has lost some influence and capital after being briefly arrested in 2016 for tax evasion; Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. HM - Hypermarkets; MT - Modern Trade. Source: BCG market model, BCG analysis

ProStore: strategy overview

	History	<p><u>2006</u>: first ProStore hypermarket in Minsk (owned 50% by Triple Holdings, 50% by Russian retailer Sedmoi Kontinent)</p> <p><u>2009-2010</u>: two more hypermarkets open in Minsk</p> <p><u>2011</u>: Triple Holdings bought back 50% shares from Sedmoi Kontinent</p> <p><u>2013</u>: Built and opened "Arena-City" shopping mall in Minsk</p> <p><u>2016</u>: six-month detention of ProStore owner Yuri Chizh led to financial difficulties: hypermarkets were sold to banks and then leased out under a financial lease</p> <p><u>2017</u>: 4 rounds of ProStore bond issues (total volume - 6M BYN; yields -12%, 15%, key interest rate) made it possible to handle overdue payments and normalize the relationships with the suppliers</p> <p><u>Expansion plan</u>: plan to open 6th hypermarket in Minsk in 2018-2019 with 10,700m² selling space; working on supermarket concept development</p>
	Sales concentration 2017	<div> <div>100%</div> <div>Share of grocery sales by format, %</div> <div>Hypermarkets</div> </div> <div> <div>100 %</div> <div>Share of grocery sales by region, %</div> <div>Minsk City</div> </div>
	Customer promise	<p>Customer promise: a wide range of food and non-food products, reasonable prices, high-quality service, free buses to hypermarkets, numerous parking spots</p> <p>Range: 65K SKUs with own production of bakery, sushi, ready-to eat/ready-to cook categories; Fruit&Veg (salad bar opening in April '18); local Belarus products (70-80% of assortment on certain categories)</p> <p>Private label: ProStore (food and non-food), Pro (food), Prosto (food and non-food) ~2% of the assortment</p>
	Commercial strategy	<p>Loyalty card: 1% of amount spent is returned on the card and can be used on next purchase</p> <p>High-low price strategy: weekly price reductions up to 50% for a 7 days period</p> <p>Other discounts: "Family day" (10%), "Pensioner day" (10%), social discount (3%)</p> <p>Partnerships: cross-promo with restaurants (e.g. Domino's Pizza, Pizza Tempo) and other retail chains (e.g. Mile)</p>
	Supply chain	<p>Real estate: owned</p> <p>Transport mixed, mostly leased</p> <p>No distribution center - hypermarket warehouse used for storage</p>
	Other	<p>Launched Retail academy program (6 months rotational paid program) in April '18 to attract talent</p>



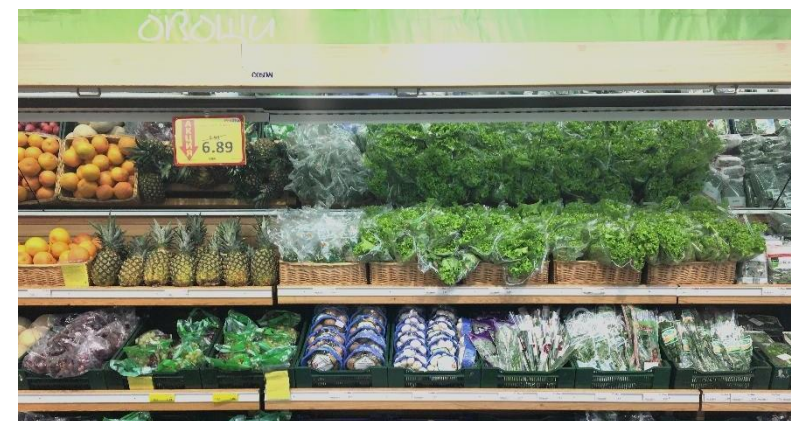
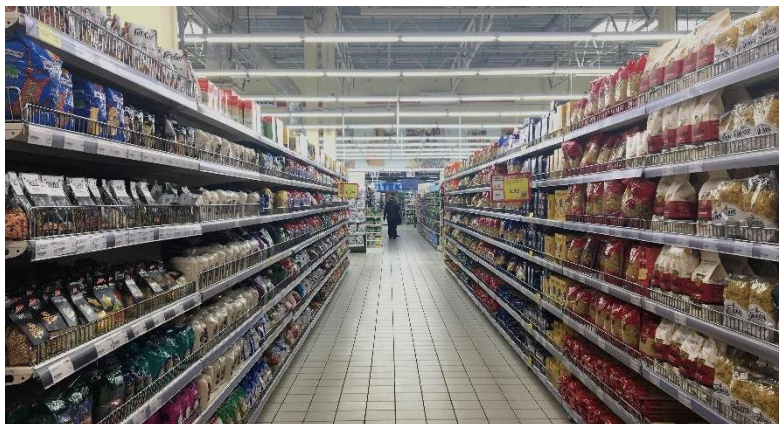
ProStore: store impressions



Source: Store visits

ProStore: store impressions

Source: Store visits



Santa is the 10th largest player with a 3% market share

Santa Impex Brest company

Санта

Estimation

Company background

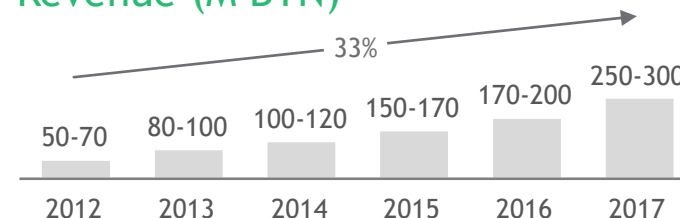
Key facts 2017

Sales (M BYN)	250-300
Market share of MT	3%
No. of outlets	73
Selling space ('000 m ²)	25
CAGR ('12-'17)	33%
No. of employees	~2,500
Ownership	Private, owner Alexander Moshensky ¹

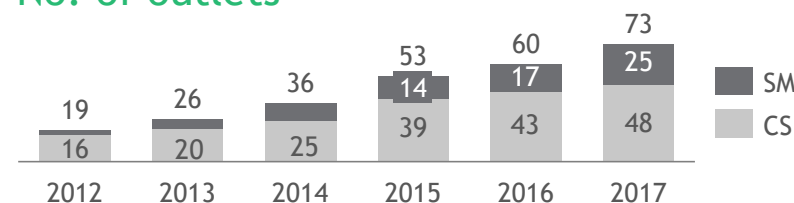
Formats

		# of outlets
Supermarkets	400-2,500 m ²	25
Convenience stores	<400 m ²	48

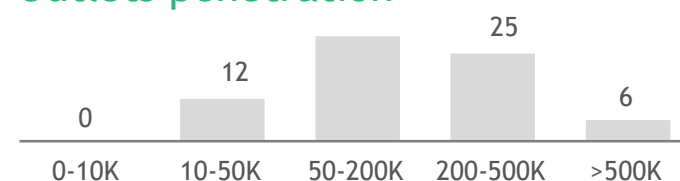
Revenue (M BYN)



No. of outlets



Outlets penetration



Cities
by population

Geographical presence

Regions	No. of outlets
Brest	55
Gomel	6
Minsk city	4
Grodno	3
Minsk region	2
Vitebsk	2
Mogilev	1



1. Santa is a part of Santa Impex Brest, which owns some of the strongest brands in Belarus and the CIS: Santa-Bremor (fish and seafood distribution) and Savushkin Product (dairy leader)
 Note: Company revenues are estimated based on BCG market model built bottom-up using national statistical data, company sales data (Euromonitor), selling space & outlets (MART), company press-releases and expert interviews. CS - Convenience stores; SM - Supermarkets; MT - Modern Trade. Source: BCG market model, BCG analysis

Santa: strategy overview



History

1998: Foundation of joint Belarusian - German company "Santa Bremor" to focus on frozen fish import and selling in Brest
 2008: First "Santa Fish" - specialized fish outlet is opened
 2011: Acquisition at a municipal auction of grocery chain "Produkty" in Pinsk
 2012-2013: Brest-Service and Vostok outlets acquisition in Brest
 Expansion plans: Santa plans to reach 100 stores by end of 2018



Sales concentration 2017



Customer promise

Customer promise: fresh products, wide range of fish and seafood products, fair prices, walking distance from home
Range: 90% of the range are food categories, frozen and fresh fish (>50SKUs), regular top-up assortment (dairy, meat, bread) and bakery & ready-to eat categories
 No **private label** (however, active promotion of Savushkin Product dairy and Santa Bremor fish and seafood products)



Commercial strategy

Discount program: 5% price discount with loyalty card
High-low price strategy: biweekly price reductions up to 50% for a 2-week period;
 5-40% discounts on ready to eat categories after 8pm



Supply chain

Real estate: 90% of the outlets are owned, 10% leased; open to lease new stores
 Transport mixed, mostly owned
 Distribution center owned



Other

25% of Santa stores are <100m²

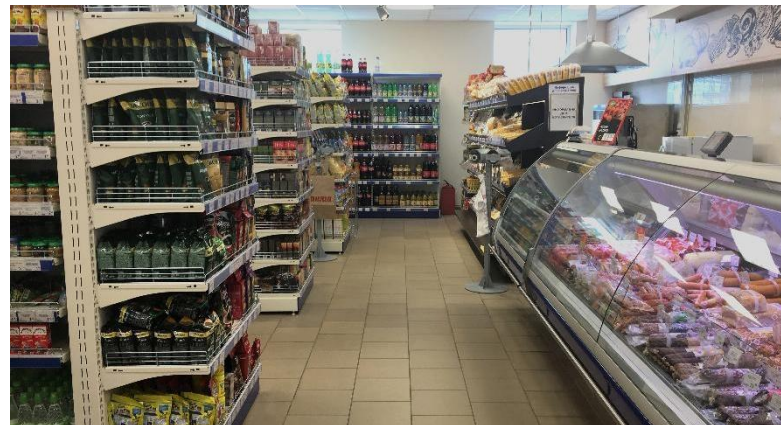
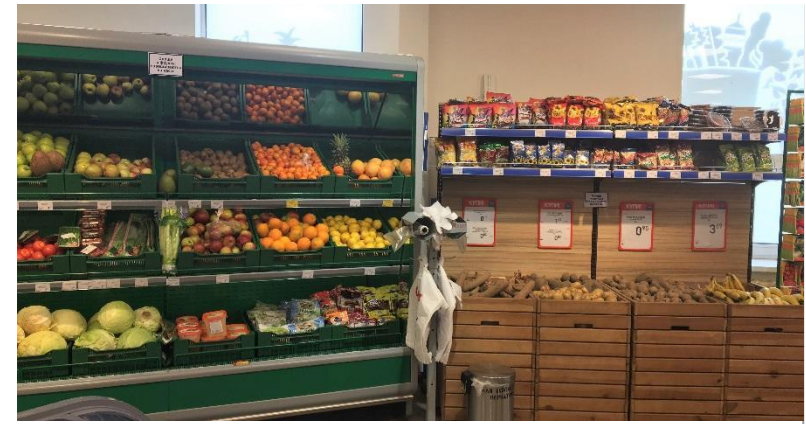
- “

I believe that convenience stores nowadays are the most optimal format

— Vadim Kravtsov, Deputy Director “Santa Retail”

Санта

Santa: store impressions



Source: Store visits

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