



Mail.Ru Group, Magnit: to cooperate is better than to compete. Good Time to Market

MAGNIT AND DELIVERY CLUB (JV OF MAIL.RU GROUP AND SBERBANK) LAUNCH EXPRESS DELIVERY

Express delivery service will be available in all districts of Moscow and St. Petersburg, as well as 15 largest cities of Russia. Delivery Club provides its users access to some 5,000 SKUs available in Magnit stores. The cooperation will allow both companies to make a major step forward competing with other players, buy enough time to enter the regional markets, ensure operating and capital costs synergy on top of additional revenue.

WIN-WIN SITUATION

Magnit is the largest retailer by number of stores in Russia: 20,894 stores, including 14,581 convenience stores. One of the best logistics systems and networks in retail (Magnit) will be strengthened by the largest taxi and courier delivery service, digital technologies and access to the vast majority of Internet users in Russia (Mail). Delivery Club will not only deliver products, but also, for the first time, employ its own pick-up points to collect orders in Magnit stores. Later, this function will be handed over to the retailer's employees. A significant number of SKUs will be involved. It should be noted that X5 focuses on 60 minutes delivery, while Delivery Club and Magnit are targeting a 30-45 minutes delivery. The cooperation will allow the companies to buy time to finalize the missing business opportunities. The cooperation does not necessarily undermine the development of the companies' independent own eCommerce and delivery services in the long term, but at least allows them to generate revenue sooner, save on the network roll-out and development of their own digital products, and gain expertise in new areas.

PROBABLY THE MOST FAR-SIGHTED MOVE IN THE SECTOR

Many eCommerce market players may face a drop in return on investments. The beneficiaries would be the players that provide the widest range of products (including non-food retail), have an effective channel of interaction with the consumer (online) and will be able to ensure a maximum effect from scaling up in terms of operating costs and capex. Cooperation is probably the right long-term move that will allow the new market to avoid : excessive price competition, duplication of investments in logistics infrastructure, IT, and marketing. Cooperation gives a chance for operational efficiency once players' industry specialization remains intact.

LOCKDOWN ACCELERATED MARKET DEVELOPMENT, COMPETITION INTENSIFIED. TIME PLAYS A BIG ROLE

Over the past few months, demand for online food stores picked up amid the lockdown. Traditional and new players - X5, Magnit, Detsky Mir, Ozon, Yandex, Mail - have been actively developing eCommerce, delivery segments. Yandex has recently increased its stake in Yandex.Market and is likely to accelerate its business development. Chinese taxi platform DiDi has launched a ride-hailing business in Russia, the company does not rule out branching out into related segments. Last week, Detsky Mir presented a new strategy for large-scale expansion. Against this background, it looks that the cooperation between Magnit and Mail was launched in a timely manner and should allow companies to benefit further from the growing new market.

FAST-GROWING ONLINE MARKET

According to Data Insight projections, CAGR of eCommerce in Russia will amount to about 33% in 2020-2024, eCommerce will account for about 19% of retail market sales, up from 6% in 2019. The Russian eGrocery market turnover may grow to ₺130 bln, up from ₺35 bln in 2019, according to Infoline's estimates.

MAIL.RU: A COMBINATION OF POSITIVE FUNDAMENTAL AND TECHNICAL FACTORS

We believe the news looks positive for Mail, although it may take some time before the market prices it in. Yandex may buy out Uber's share in Yandex.Taxi, a move that may lead to an IPO of the service to crystallize its value. It cannot be ruled out that Mail will follow this practice of monetizing investments. The company has posted strong 2Q20 results for both advertising and games segments amid the COVID-19 crisis. This trend is likely to continue in 3Q20, even on the back of some normalisation. Moreover, Mail shares are expected to be included in the MSCI index in November, that is to become a technical trigger for the stock, referencing Yandex's impressive stock performance.

MAGNIT: THE FASTEST ENTRY INTO THE ECOMMERCE MARKET

We believe that retailers are well-positioned to benefit from eCommerce development by partnering with multiple players, making money on the use of their infrastructure in addition to their own delivery product. Magnit launched digital transformation in early 2020 and hired a management team from online retailer Lamoda. The cooperation will significantly accelerate the development.

MAIL, SBERBANK: MASSIVE AND TIMELY INVESTMENTS IN A FAST-GROWING MARKET

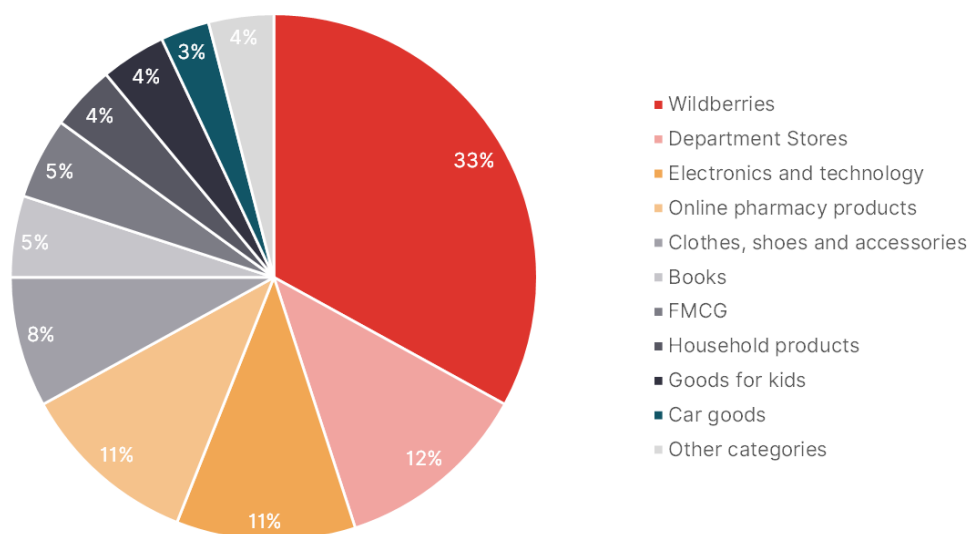
In August, Sberbank and Mail.ru had invested an additional ₺12 bln roubles in their

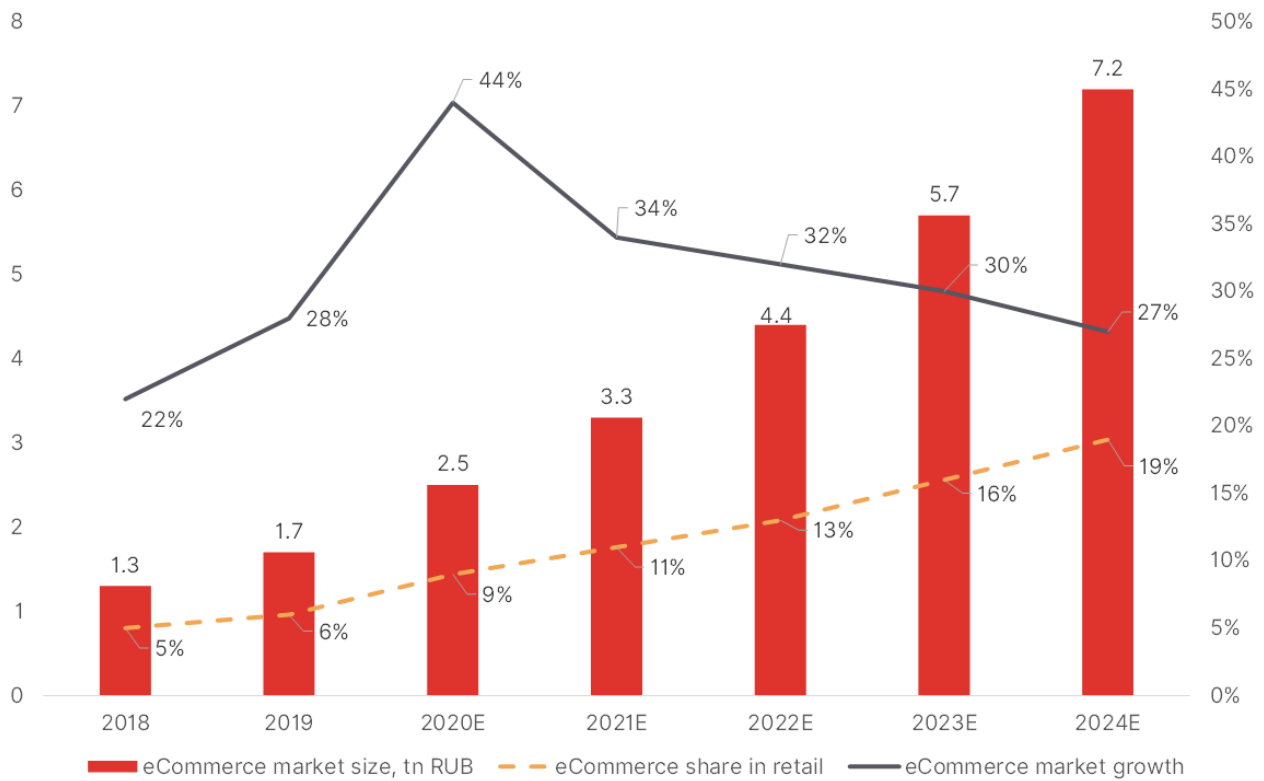
ride-hailing and online food venture, on equal terms. They said their 45.005% stakes in the joint venture would remain equal after the funding injection. The money would be spent on scaling up certain aspects of the venture that were not part of the deal as of its closure in December 2019. These include mapping service and e-grocery delivery Samokat (a 75.6% stake consolidated in May). The management said its intention was to go beyond food delivery, and explore new domains, such as dark kitchens and stores. Similarly, with its ride-hailing and car sharing offerings, the companies said they wanted to go beyond traditional transportation and food delivery services. We believe news on Mail-Magnit operational cooperation as well as Mail-Sberbank investment partnership should be read in conjunction.

MAGNIT - FOCUS ON OPERATIONAL COOPERATION?

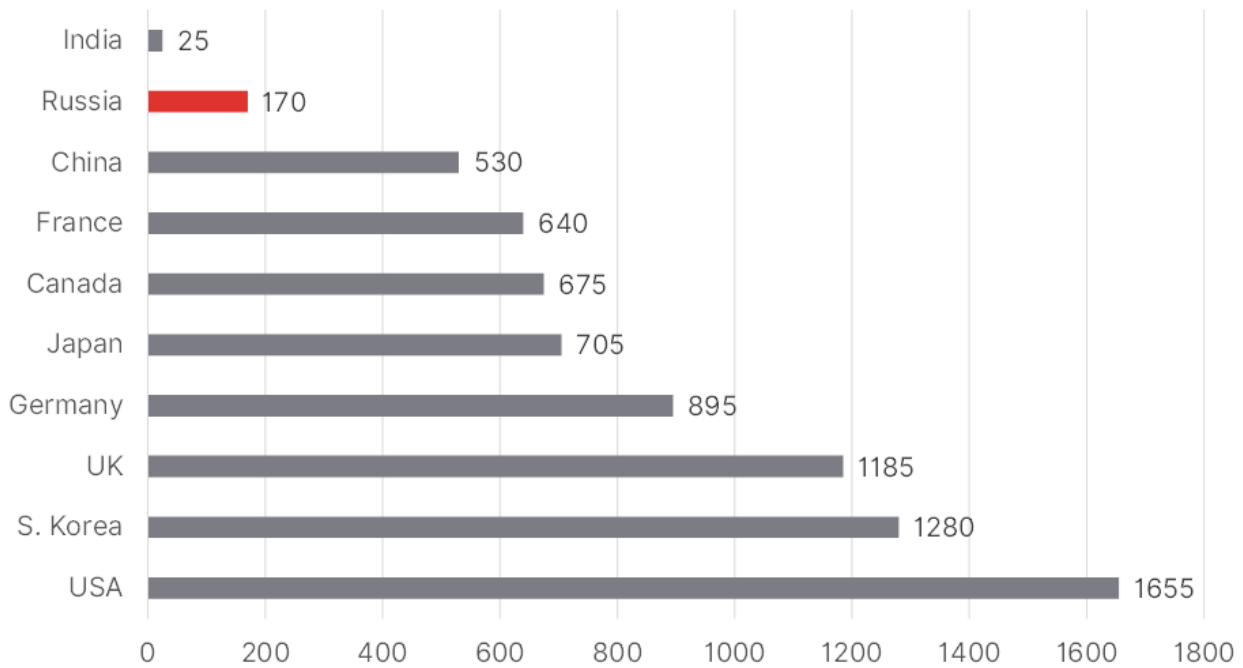
Until recently, Magnit had no major projects in the eGrocery, pilot projects were launched in 2020 only in Rostov and Volgograd. Magnit plans to launch a pilot food delivery project and start testing eGrocery format in November 2020, the company has been conducting tests on e-commerce in pharmacy goods. Magnit Pharma is set to start online sales by September, developing an omnichannel offering for the customers. Now Magnit relies on partners for products delivery. iGoods provides delivery services in the Central region and Broniboy in the Krasnodar region. Magnit has been testing a delivery service in Rostov-on-Don and Volgograd, in partnership with Pony Express and Yandex.Lavka. The company will be able to become an eCommerce leader in the Central region and the Southern District, both due to the strong logistics of Magnit and by partnering with projects, including Delivery Club.

Distribution of orders in online stores of different categories on average per day, 2019

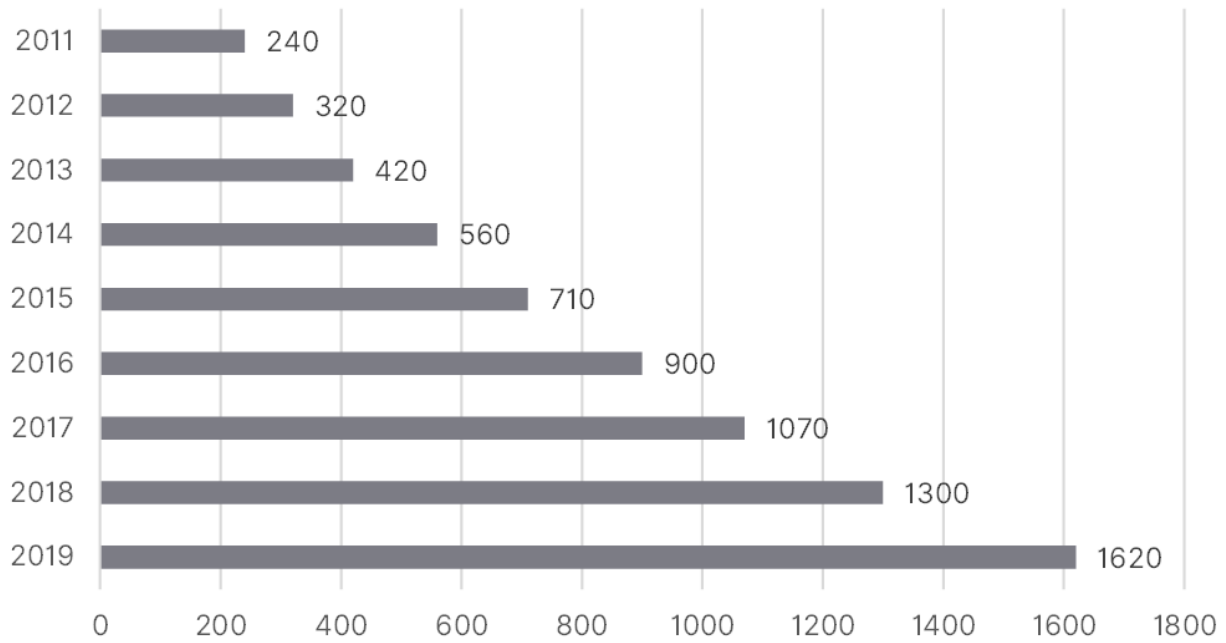




eCommerce market share per capita, 2019, \$



Online sales in Russia, 2011-2019, ₺ bln



Source: Data Insight

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