

Gruzdev Family Exiting Sedmoi Kontinent

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Gruzdev attending a meeting in September. He and Zanadvorov founded grocery chain Sedmoi Kontinent in 1994. **Sergei Porter**

State Duma Deputy Vladimir Gruzdev's family foundation will sell its share of food retailer Sedmoi Kontinent to entrepreneur Alexander Zanadvorov, booking a profit on the investment and freeing up funds to build affordable housing in the Moscow region.

Vedomosti learned about the plans from a source close to the foundation and an acquaintance of Zanadvorov. Foundation manager Natalya Chernyak confirmed that in the beginning of October they signed a contract to sell their 21.3 percent stake in Sedmoi Kontinent to Zanadvorov's company Bashnya 2000.

A source close to the foundation confirmed that once the deal, which is valued at \$400 million, is complete, Zanadvorov will control about 96 percent of Sedmoi Kontinent.

That means he could even become the sole owner of the chain. By raising his holding above 95 percent, Zanadvorov would be obligated to make a buyout proposal to the minority

shareholders, said Andrei Lebedev, head of law firm Krikunov & Partners.

Zanadvorov plans to get credit from VTB to complete the deal with the Gruzdev foundation, a source said.

Oleg Lebedinets, a spokesman for VTB Capital, could only confirm that the bank works with the retailer "in a broad range of areas." A spokesman for Sedmoi Kontinent said they do not comment on the business of their shareholders.

The market value of the 21.3 percent package is \$156 million, based on the share price of \$9.79 on Oct. 11. Since early October, Sedmoi Kontinent shares have increased in value by almost 24 percent, said Marat Ibragimov, a senior analyst at Otkritie. But the company's market capitalization is still \$720 million, meaning that a \$400 million valuation for the stake is too high.

Renaissance Capital analyst Natalya Zagvozdina said \$10.30 per share is a fair price, which would value the entire company at \$772.5 million. "This is the price at which a minority shareholder could sell their securities on the open market," she said.

The remaining assets of the foundation include retailer Fashion Continent and 1,000 hectares of land along Kaluzhskoye Shosse, a source close to the foundation said. The plots, 7 to 10 kilometers from the Moscow Ring Road, were purchased from Senator Vadim Moshkovich's company Masshtab.

A source told Vedomosti that the foundation plans to take the proceeds from the sale and invest in a new project called Garden City — construction of 3 million square meters of housing.

Gruzdev declined to comment on the deal with Zanadvorov but confirmed to Vedomosti his intention to invest in the development project. "I believe in the country and believe that we need to build housing that is not only cheap, but also beautiful. Therefore, the working title of our project is Garden City." Zanadvorov could not be reached for comment.

Samvel Karapetyan's Tashir Group will be a partner on individual parts of the project, a source close to the foundation said. A Tashir spokeswoman confirmed the group's participation, saying the foundation would supply the land and Tashir would provide investment and construction capacity.

Such a project might require investment based on a sale price of \$1,000 per square meter, said Artyom Tsogoyev, a partner at the Moscow Central Real Estate Exchange. Demand for affordable housing both in Moscow and in the region remains at a high enough level, said Tatyana Palchikova, deputy director of Trust 1991.

Gruzdev, who along with Zanadvorov founded Sedmoi Kontinent in 1994, already left the retailer as a shareholder once. In 2007, Zanadvorov agreed to buy out Gruzdev's share in their controlling stake for \$1 billion.

To finance the transaction, he took a \$560 million loan from Deutsche Bank. But the crisis came in fall 2008, and Zanadvorov, trying to avoid a margin call on the loan, actively traded Sedmoi Kontinent shares on the open market.

Gruzdev's foundation began providing funds for Zanadvorov to buy up Sedmoi shares from the market to support their price, which Zanadvorov later began transferring to the foundation. By the end of 2008, the foundation had received 10 percent and by May 2010 about 19 percent, a source at the foundation said earlier. The remaining shares were purchased on the market, said an employee of Sedmoi Kontinent.

Since early October, the volume of trading of Sedmoi Kontinent shares has increased several times over. In the first 11 days of October, Ibragimov said, MICEX traded 1.2 percent of the total number of shares of the company, or a third of its free float.

The foundation will not disclose how much it spent buying up Sedmoi shares, but based on market prices over the period the stake could have cost 2.4 billion rubles to 10 billion rubles (\$80 million to \$332 million).

Gruzdev declared income for 2009 of 936.7 million rubles, and his wife's at 692.5 million rubles. Gruzdev told Vedomosti that his family income derived from the sale of stocks and bonds and interest on deposits in Russian banks. He is the second wealthiest member of parliament.

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