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INDEPENDENT NEWS FROM RUSSIA

A Russian Oligarch Walks Away From His $8 Billion Empire

Though he had been cutting his stake in the chain in recent years, the market was surprised to see Sergei Galitsky bail

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Sergei Galitskiy **Bloomberg**

(Bloomberg) — In 1998, Sergei Galitsky opened a small grocery in his hometown of Krasnodar, 1300 kilometers south of Moscow.

Over the next two decades he expanded that modest operation into an empire with almost $20 billion in sales and 16,000 stores across Russia, amassing a fortune valued at some $5 billion in the process. On Friday, he walked away.

Galitsky will quit as chief executive officer of Magnit PJSC after selling 138 billion rubles ($2.5 billion) of shares — 29 percent of the company — to the state-controlled VTB Group, Magnit said in a regulatory filing. Though he had been cutting his stake in the chain in small increments in recent years, the market was surprised to see him bail almost entirely — selling his shares at 3.9 percent below Thursday's closing price. After Friday's deal, Galitsky owns about 3 percent of Magnit.

The disposal comes after Magnit had struggled to manage its rapid expansion and fend off competitors, especially X5 Retail Group NV, controlled by rival billionaire Mikhail Fridman. With its sales growth slowing, Magnit in 2016 ceded the title of Russia's largest retailer to X5, and its shares have fallen by more than half in the past 12 months. Magnit dropped as much as 7 percent in Moscow trading on Friday, to the lowest since 2012.

Galitsky said he decided to sell because his views on running Magnit clashed with those of other shareholders, as the market demanded fast growth and he preferred to focus on profitability, Interfax reported.

"It was a difficult decision since I founded this company," he said at a signing ceremony in Sochi, clearly emotional, in a broadcast shown on RBC television. "But nothing is forever. I shouldn't oppose this process. If investors want changes, they should get them."

The haste with which the deal was put together, the relatively low price, and the fact that the buyer was a state-controlled bank indicate that Galitsky made "an emotional rather than a rational decision," said Alexei Krivoshapko, director at Prosperity Capital who helps manage $4.2 billion in assets, including Magnit shares.

Crowds gathered outside Magnit's headquarters on Friday to say goodbye to Galitsky and chanting "thank you!"

Embed:

A post shared by (@dianaelnikova) on Feb 16, 2018 at 4:18am PST

But there have been underlying problems that must be addressed, Krivoshapko said, and the company might well benefit from new leadership.

“Magnit has been underperforming for the last two years,” Krivoshapko said. “Management has been missing sales targets and pushing an unrealistic plan to improve margins by producing its own food.”

Magnit’s customer base in the regions was hard hit by soaring inflation and a two-year economic recession. Consumer demand is now slowly recovering, supported by lower inflation and a strengthening of the ruble.

Sandwich Takeover

With investor concern growing over high-profile takeovers of oil and banking assets by state-controlled entities in the past 18 months, VTB was quick to defend the acquisition as just another investment. VTB owns 3 percent of another Russian retailer, Lenta Ltd, as well as 27.5 percent of wireless carrier Tele2 Russia.

VTB’s First Deputy CEO Yury Solovyev said the purchase of Magnit was “purely an investment decision.” Speaking to reporters at an investment conference in Sochi, Solovyev pointed to his bank’s 2012 purchase of 47 percent of fast-food chain Burger King’s Russian franchise operation as an example of its experience in the retail and consumer sector.

“When we bought a stake in the Burger King franchise,” he said, “did you worry about a state takeover of sandwiches?”

Chief Financial Officer Khachatur Pombukhchan has been appointed Magnit’s new CEO. Though Pombukhchan told investors last month that the company wouldn’t pay a dividend this year, Magnit on Friday said that a dividend is now planned for the second half.

Magnit also said it is considering a share buyback, part of which would be used for a management incentive plan.

After Magnit’s sharp drop on Friday, Vadim Bit-Avragim, a money manager at Kapital Asset Management LLC in Moscow, suggested investors should brace for further declines. He said Galitsky’s business strategy of rapid growth didn’t suit the current market in Russia, spurring him to look for an exit.

“I’m guessing he’s been mulling a sale for a while now,” Bit-Avragim said. “And he just couldn’t find a good foreign buyer.”

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