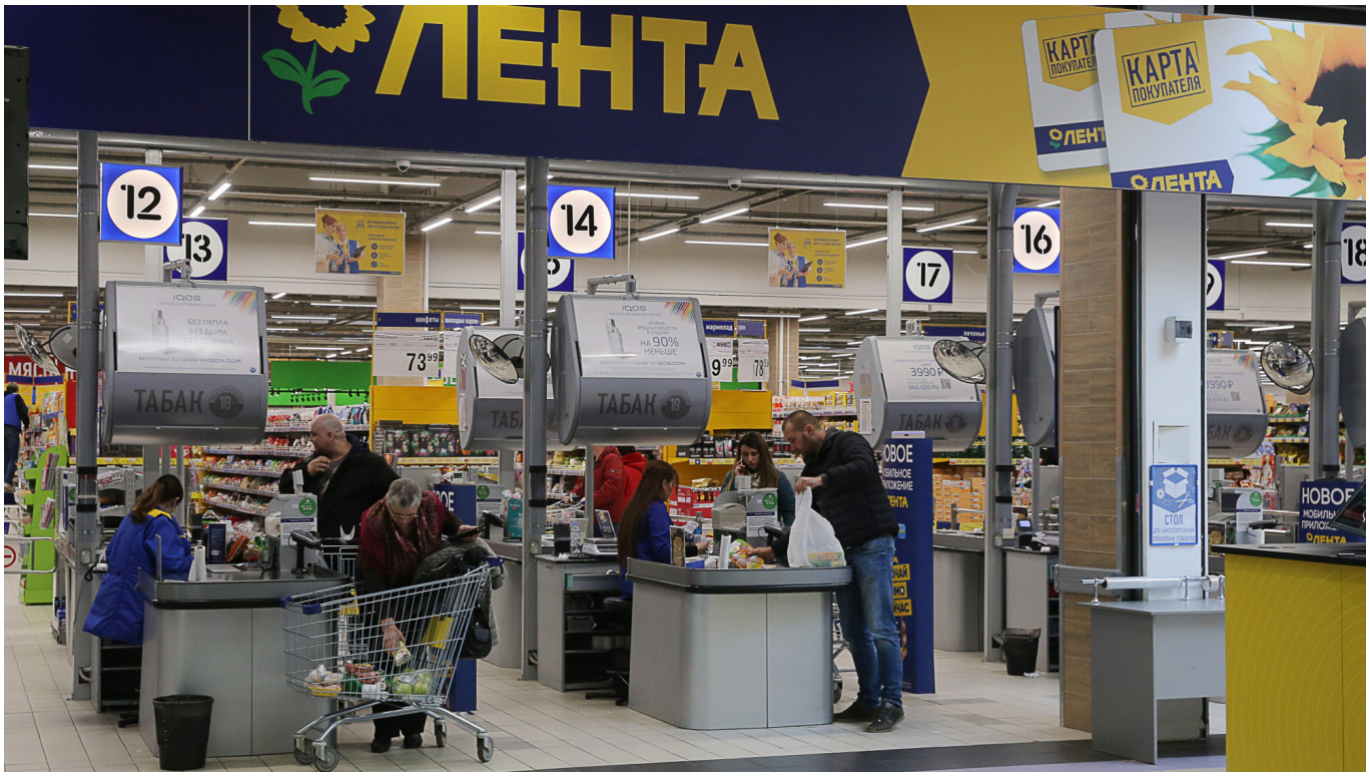
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INDEPENDENT NEWS FROM RUSSIA

Steel Tycoon Mordashov Completes Acquisition of Supermarket Chain Lenta

Lenta minority shareholders had preferred a bid from rival retailer Magnit.

By bne IntelliNews

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Alexei Mordashov said he wants to make Lenta an uncontested leader in its sector. **Vladimir Gerdo/TASS**

Steel tycoon Alexei Mordashov's Severgroup completed the acquisition of 41.9 percent of Russian supermarket chain Lenta, and is expected to make a binding buyout offer to minority shareholders, which was part of the deal, Lenta reported to the London Stock Exchange.

The acquisition by Severgroup was carried through despite minority shareholders questioning the deal and urging the study of a competing offer from rival retailer Magnit, which proposed a slightly higher share price and could have brought retail industry expertise that Severgroup doesn't have.

Under a binding agreement announced on April 1, Lenta's main shareholders TPG and the European Bank for Reconstruction and Development (EBRD) were to sell their 34.44 percent and 7.47 percent stakes in Lenta, respectively, to Severgroup for $3.60 per global depositary receipt (GDR). The total amount of the deal stood at $729 million and the retailer is valued at $1.75 million.

Should all the remaining minority shareholders claim the buyout offer, Severgroup would have to spend an additional $1 billion.

"Our goal is to bring Lenta to a position of an uncontested leader in the sector in terms of client loyalty and unique proposal," Alexei Mordashov commented on the deal in the press release.

Related article: Russian Supermarket Leader Magnit Makes $1.78Bln Bid to Buy Rival Lenta

The minority shareholders that urged a closer look into the Magnit deal reportedly included Prosperity Capital, Aberdeen Standard Investments, Bestinver and a group of unnamed private investors.

As traditional retailers are pushing against structural barriers to growth, declining valuations could start a wave of mergers and acquisitions in the sector. Most recent reports claim that another second-tier retailer, O'key, is being eyed by Yandex.Market online marketplace, a joint venture between Russia's largest bank Sberbank and its most valuable digital company Yandex.

However, the CEO of Magnit and the former CEO of Lenta, Jan Dunning, told the Vedomosti daily commenting on the Lenta acquisition on April 30 that more large deals that change the landscape of the sector are not to be expected any time soon. Magnit will continue to look into small, regional players that fit the formats of Russia's second-largest retailer, Dunning said.

Related article: Drama Builds in Lenta Supermarket Takeover Bid

Magnit itself has been struggling to keep up since it lost market leadership to rival X5 Group. The company reported a drop in net international financial reporting standards (IFRS) income of 52 percent year-on-year to 3.54 billion rubles ($54 million) in the first quarter of 2019 (1Q19), with a decline in Ebitda of 6 percent year-on-year and a decline in the Ebitda margin of 110 basis points to 6 percent.

"Magnit reported weak 1Q19 IFRS and trading update, significantly missing BCSe and market expectations," BCS Global Markets commented on April 30. The company's revenue in the reporting quarter came in line with market expectations, rising 10 percent year-on-year, mainly driven by the store expansion program and growth in like-for-like sales by 0.6 percent year-on-year in 1Q19.

In turn, X5 Group in 1Q19 posted "very strong results, beating expectations on Ebitda by 9 percent and net income by 21 percent. The Ebitda margin reached a solid 7.3 percent versus

the expected 6.7 percent — strong positive," BCS GM commented on April 25.

The explosive growth of Russia's supermarket chains has come to an end as organised retail starts to run up against structural constraints. The leading chains have switched from expansion to grab more market share to improving profitability, and have even begun to close some of their more unprofitable stores.

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