



# „MERCATOR TOWARDS BREAKTHROUGH CHANGES“

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**Mercator**

# Mercator Group and its performance by markets by the end of 2012

- 56.3 % of Group's revenue
- 11,794 employees
- 952 business units

- 3.3 % of Group's revenue
- 3,627 employees
- 244 business units

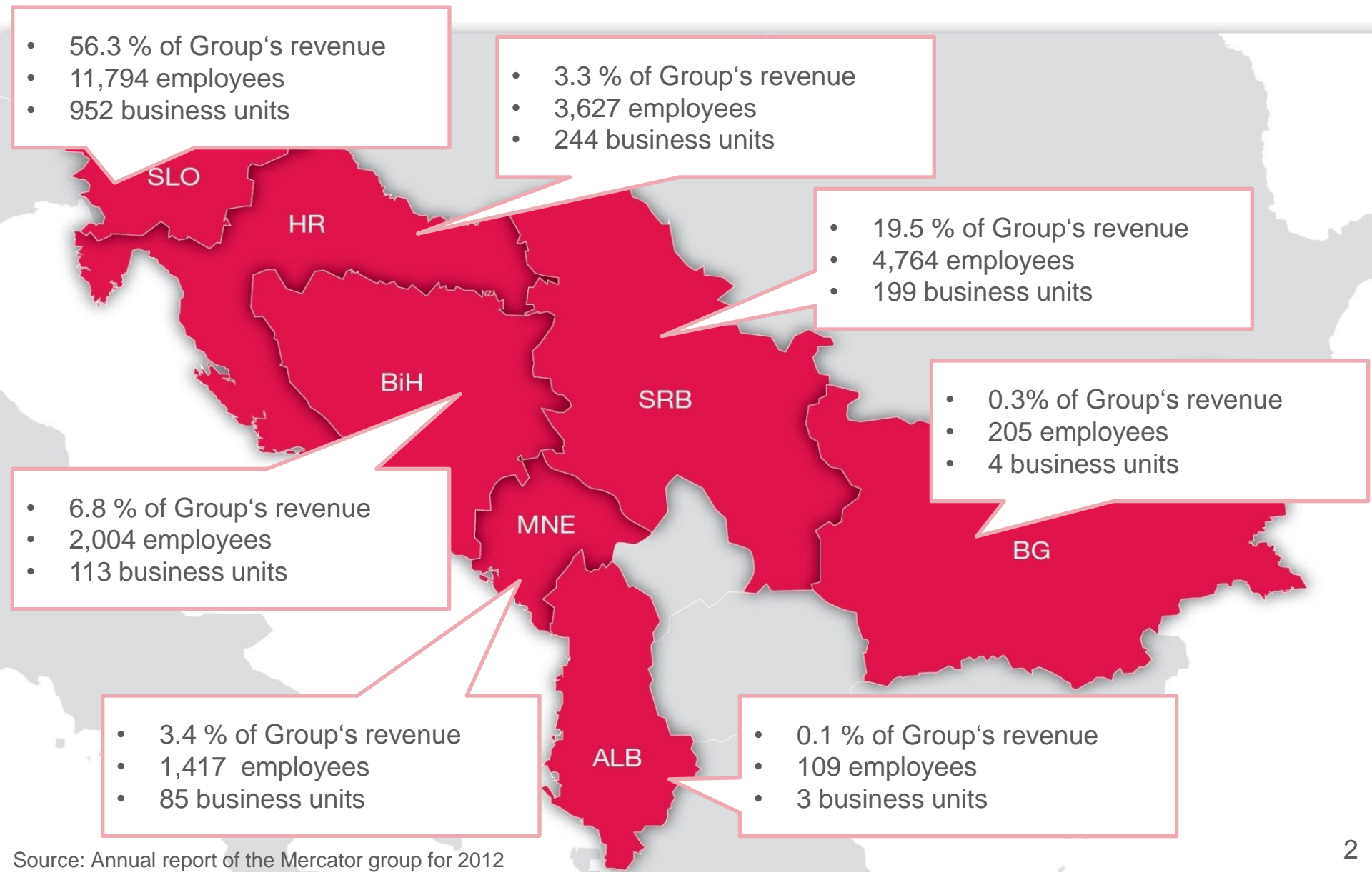
- 19.5 % of Group's revenue
- 4,764 employees
- 199 business units

- 0.3% of Group's revenue
- 205 employees
- 4 business units

- 6.8 % of Group's revenue
- 2,004 employees
- 113 business units

- 3.4 % of Group's revenue
- 1,417 employees
- 85 business units

- 0.1 % of Group's revenue
- 109 employees
- 3 business units



# Key strategic issues found at our arrival

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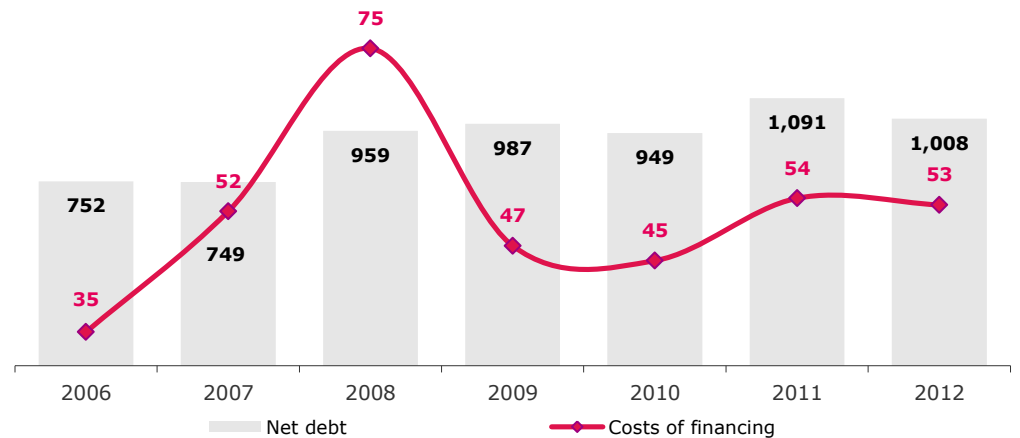
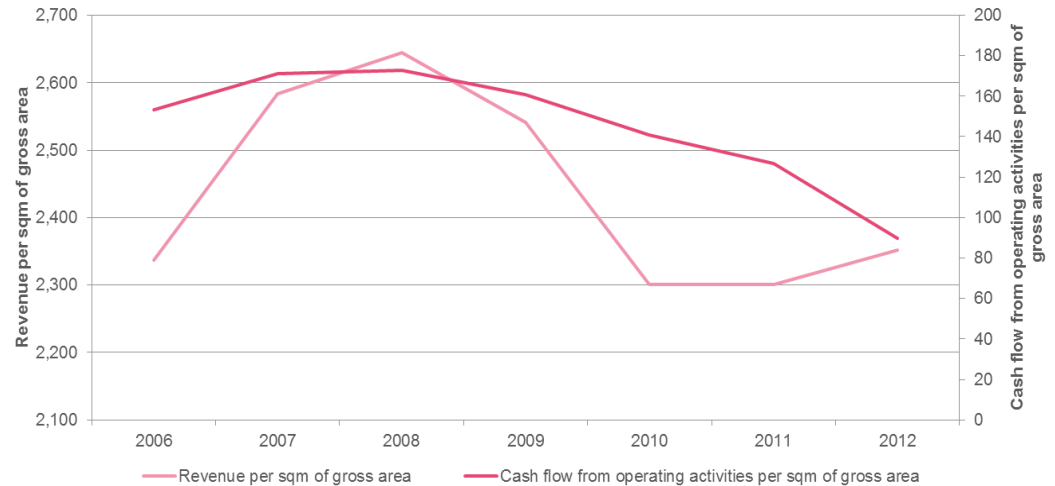
1	▪ Important <b>competitive threats in Slovenia</b> FMCG market which was leading to a continuous decline in market share and profitability
2	▪ <b>Underperforming C&amp;C formats and high fixed costs</b> in a highly competitive <b>Croatian market</b>
3	▪ <b>Serbia, BIH and Montenegro</b> : how to tackle <b>significant growth opportunities</b>
4	▪ A <b>complex asset base and non core businesses</b> that includes a <b>substantial non-food presence and non-performing operations</b>
5	▪ <b>Highly leveraged</b> , however with a <b>significant real estate opportunity</b>
6	▪ An <b>enormous potential for cost-cutting and EBITDA improvement</b> measures and <b>rationalization</b> to be unlocked
7	▪ The opportunity to <b>consolidate a leadership position</b> in the food retail market of South Eastern Europe

# Unprofitable expansion in recent years

Mercator growth was not driving profits

While it has increased net debt and financial costs

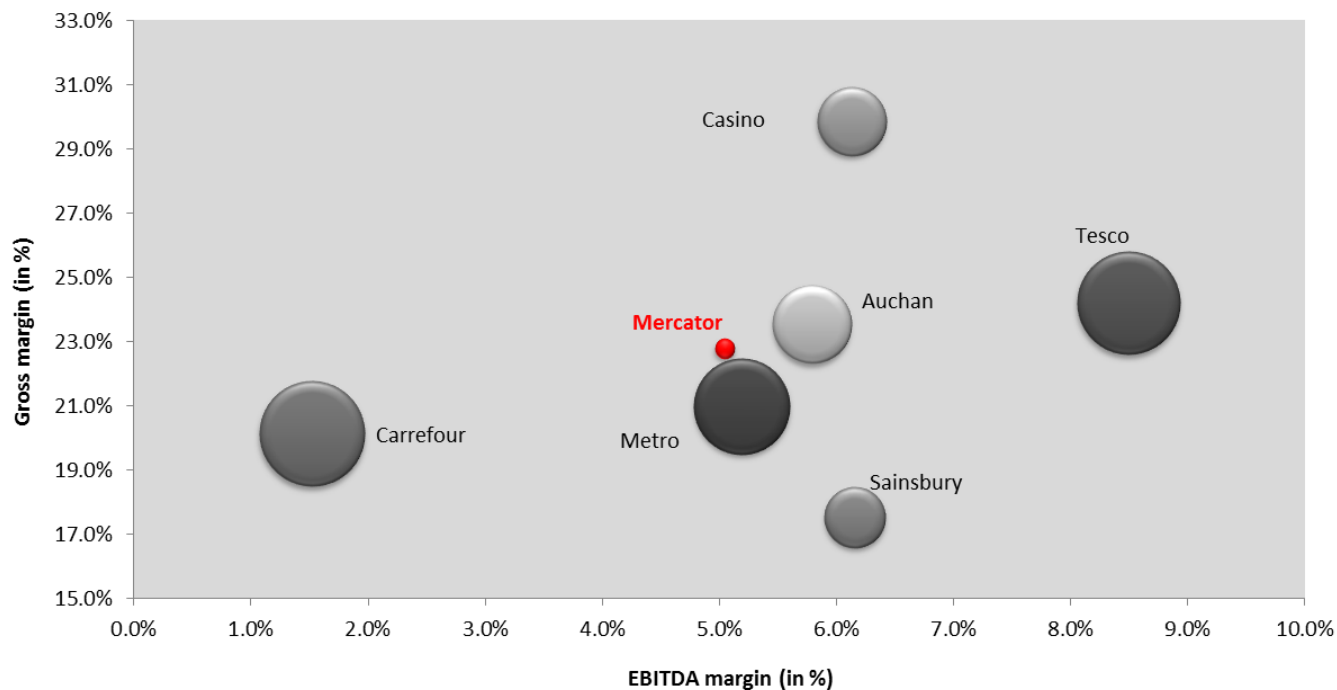
Revenue and gross cash flow from operating activities per sqm of gross area (in EUR)



TOGETHER AT EVERY STEP

Mercator had a relatively high margins that were not translated into appropriate EBITDA margin; growth was below average

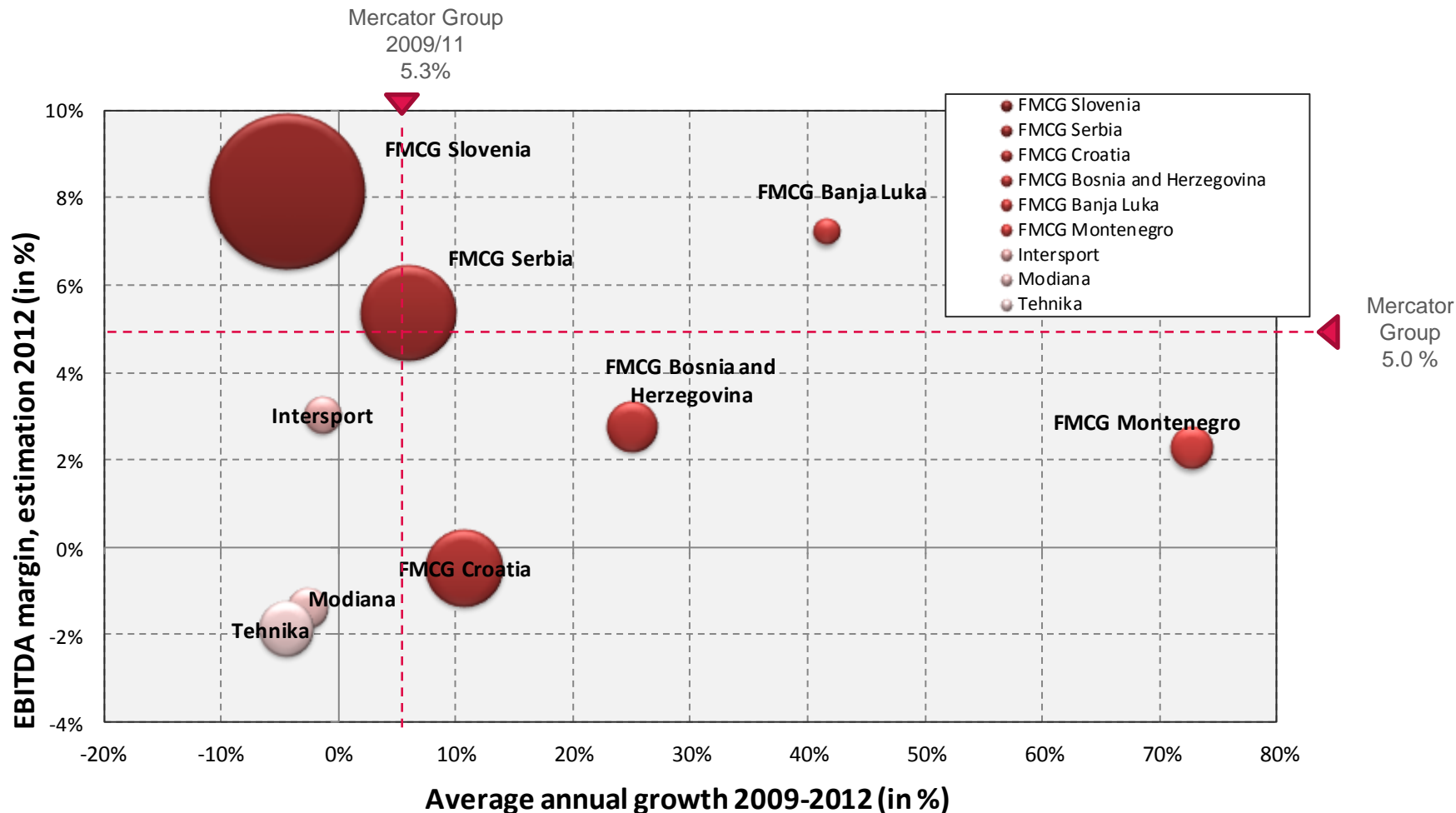
## EBITDA and gross margin (%) for top European retailers



	EBITDA margin (in %)	Gross margin (in %)	CAGR 2011/2009 (in %)
Tesco	8.5%	24.2%	0.8%
Casino	6.1%	29.9%	-2.4%
Carrefour	1.5%	20.1%	2.8%
Metro	5.2%	21.0%	1.8%
Sainsbury	6.2%	17.5%	2.4%
Auchan	5.8%	23.5%	-2.8%
Mercator	5.0%	22.8%	-0.8%

# Complex operations in many markets were reflected in low growth and in failure to achieve adequate profitability

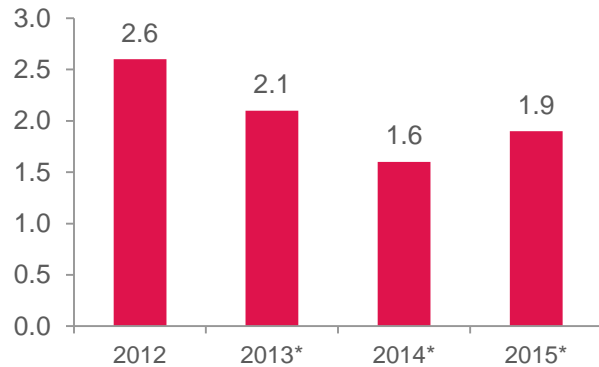
## Average annual growth (%), EBITDA margin and sales by programs





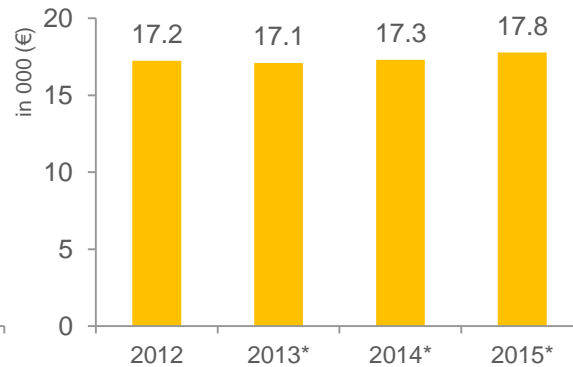
# At the same time we are facing a challenging macro-economic situation, which is not expected to improve until at least 2014

Consumer price inflation (%)



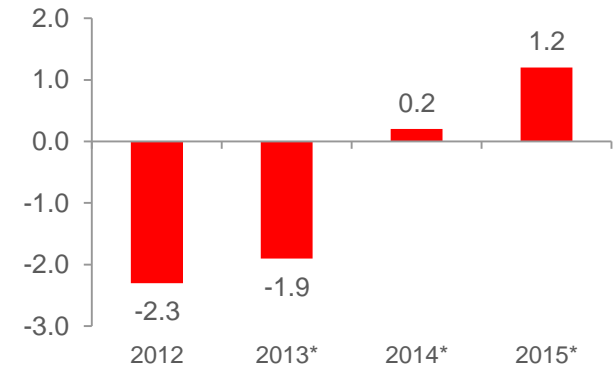
Source: UMAR

GDP/capita



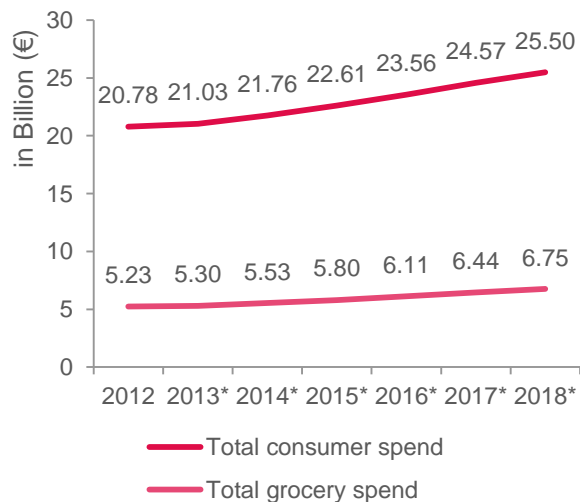
Source: UMAR

GDP real growth (%)

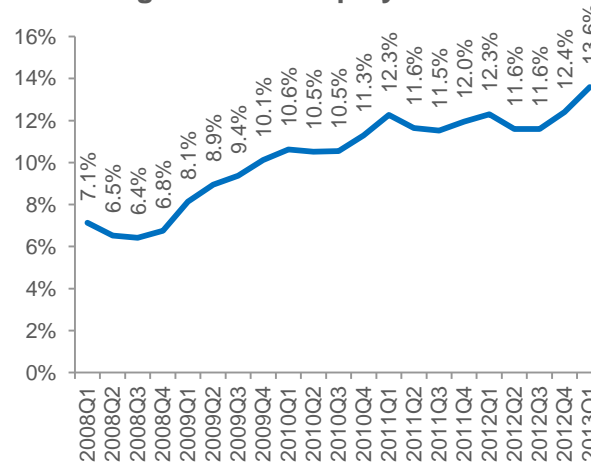


Source: UMAR

Total & grocery consumer spend

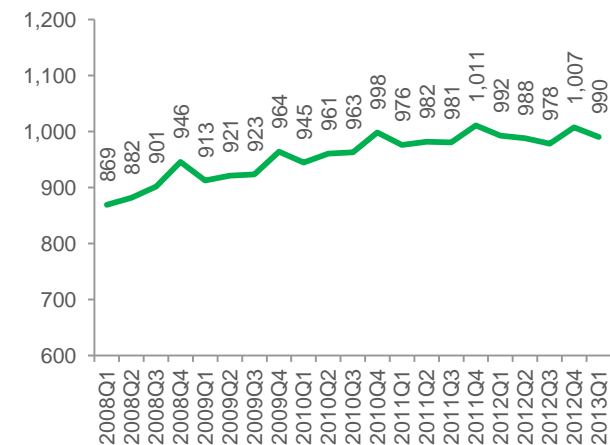


Registered unemployment rate



Source: SURS

Average monthly net wage (€)



Source: SURS

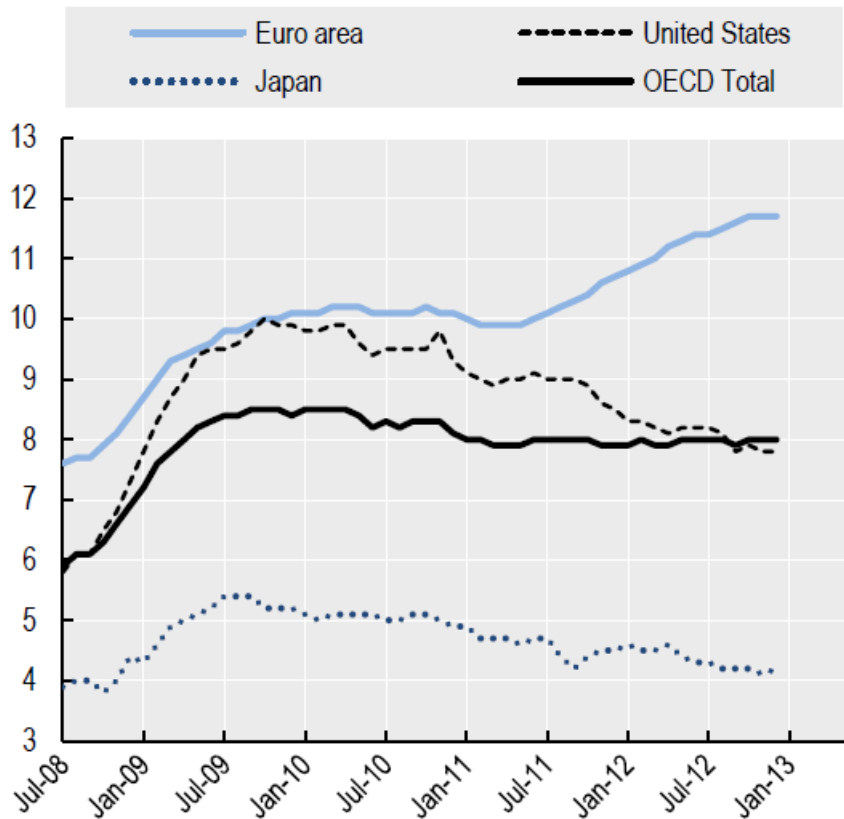
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Source: Planet Retail

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# Economic crisis accompanied by a high level of unemployment, which is still growing in Europe and in the region

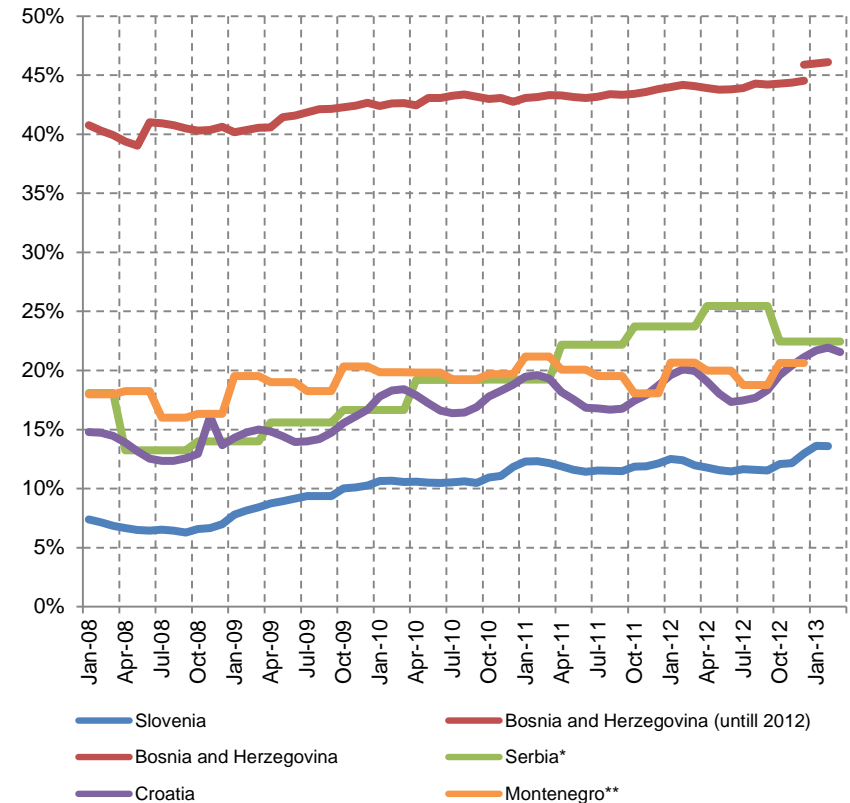
Harmonised unemployment rates



Unemployment defined by ILO definition – not comparable with registered unemployment rate

Source: OECD

Unemployment rate



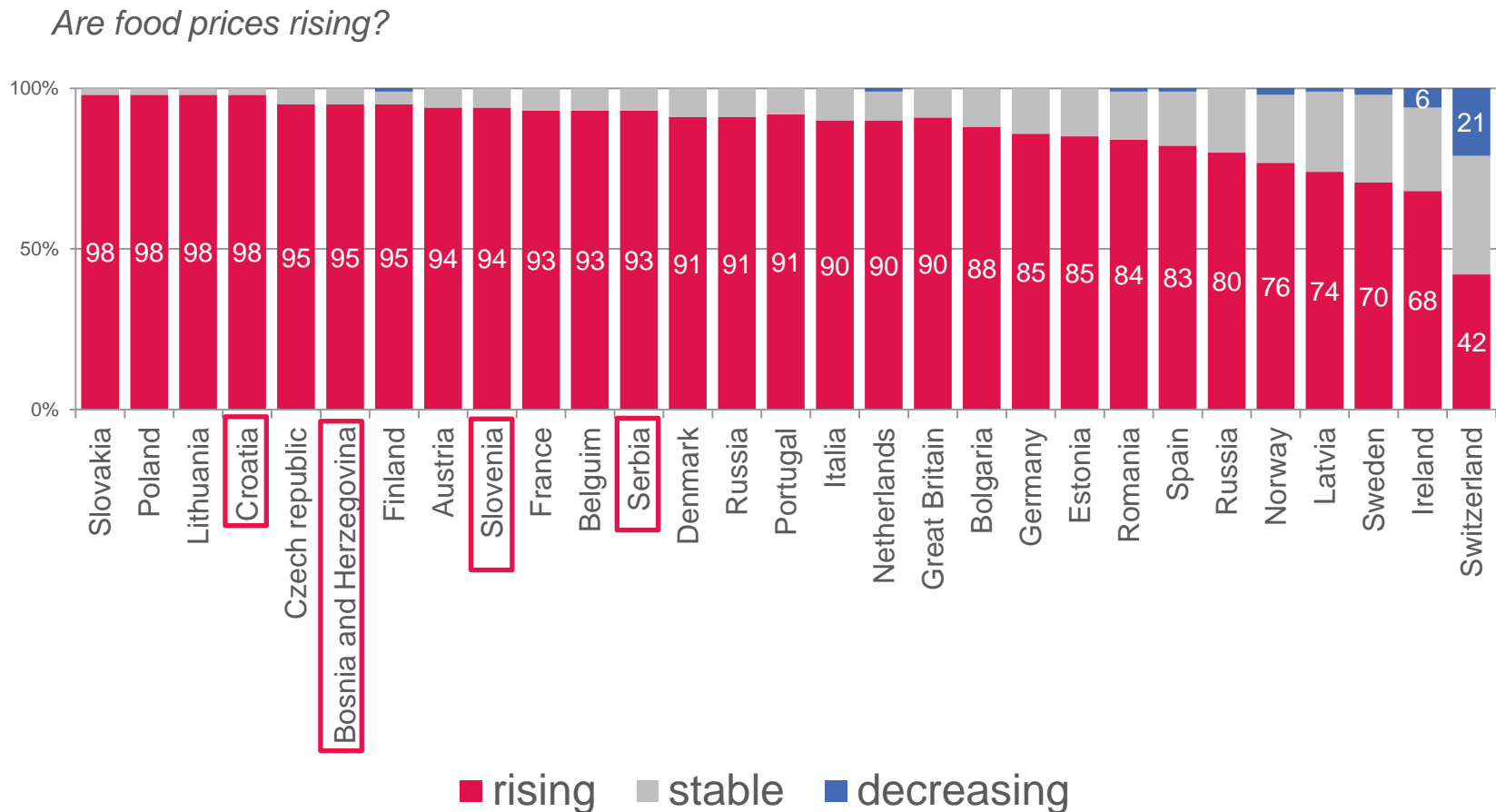
\* Survey measuring; half-year data extrapolated to monthly level

\*\* Survey measuring; quarterly data extrapolated to monthly level

Source: Statistical offices



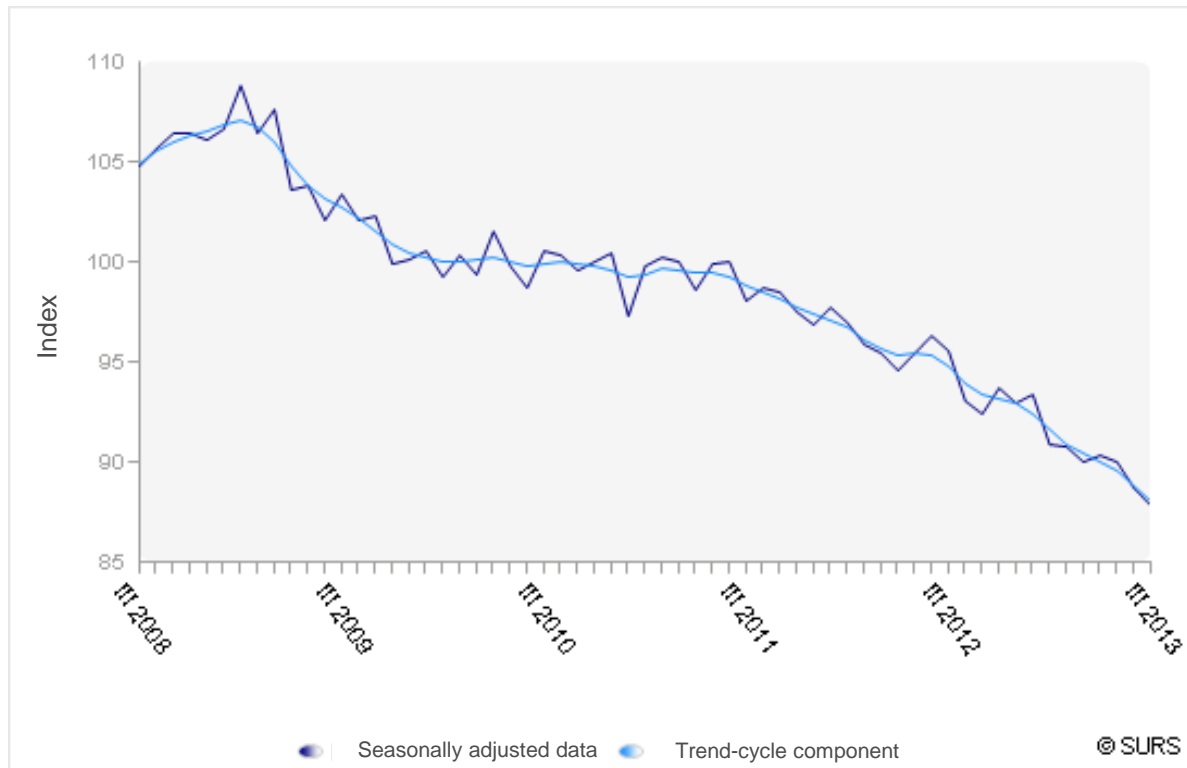
# Strong feeling of inflation: the vast majority of consumers throughout Europe believes that food prices are rising



Source: Nielsen, 2011

# The combination of continued growth in food prices, low wage growth and weak consumer confidence leads to lower demand

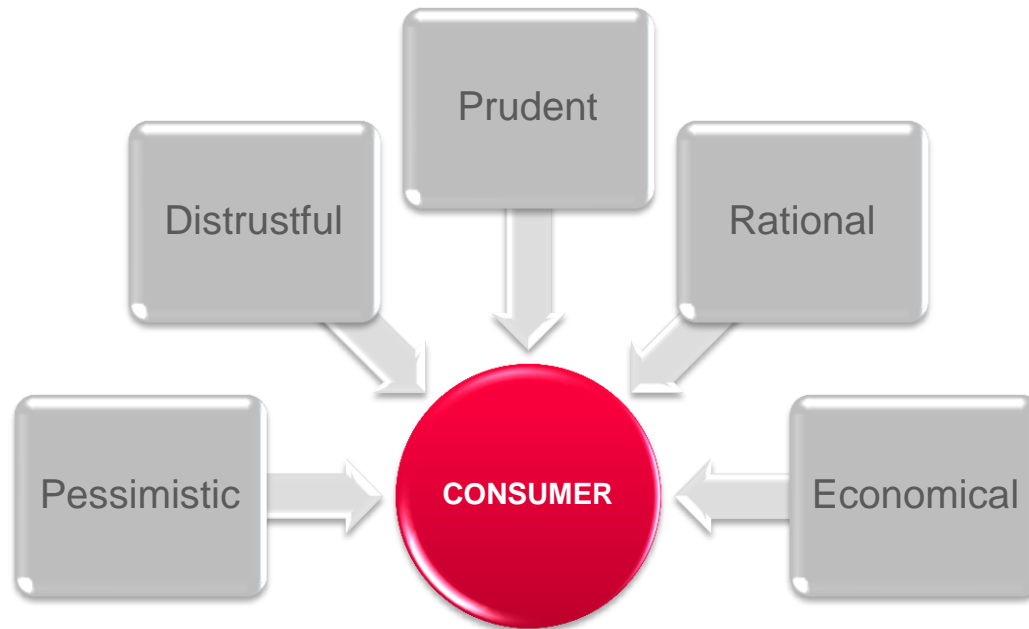
Real turnover index in retail, excluding automotive fuel. Seasonally adjusted data<sup>1)</sup> and Trend-cycle component <sup>2)</sup>, Slovenia, March 2008 – March 2013 ((Ø 2010=100) index



Source: SURS, 2013

# The consumer is distrustful, pessimistic and has become rational and economical

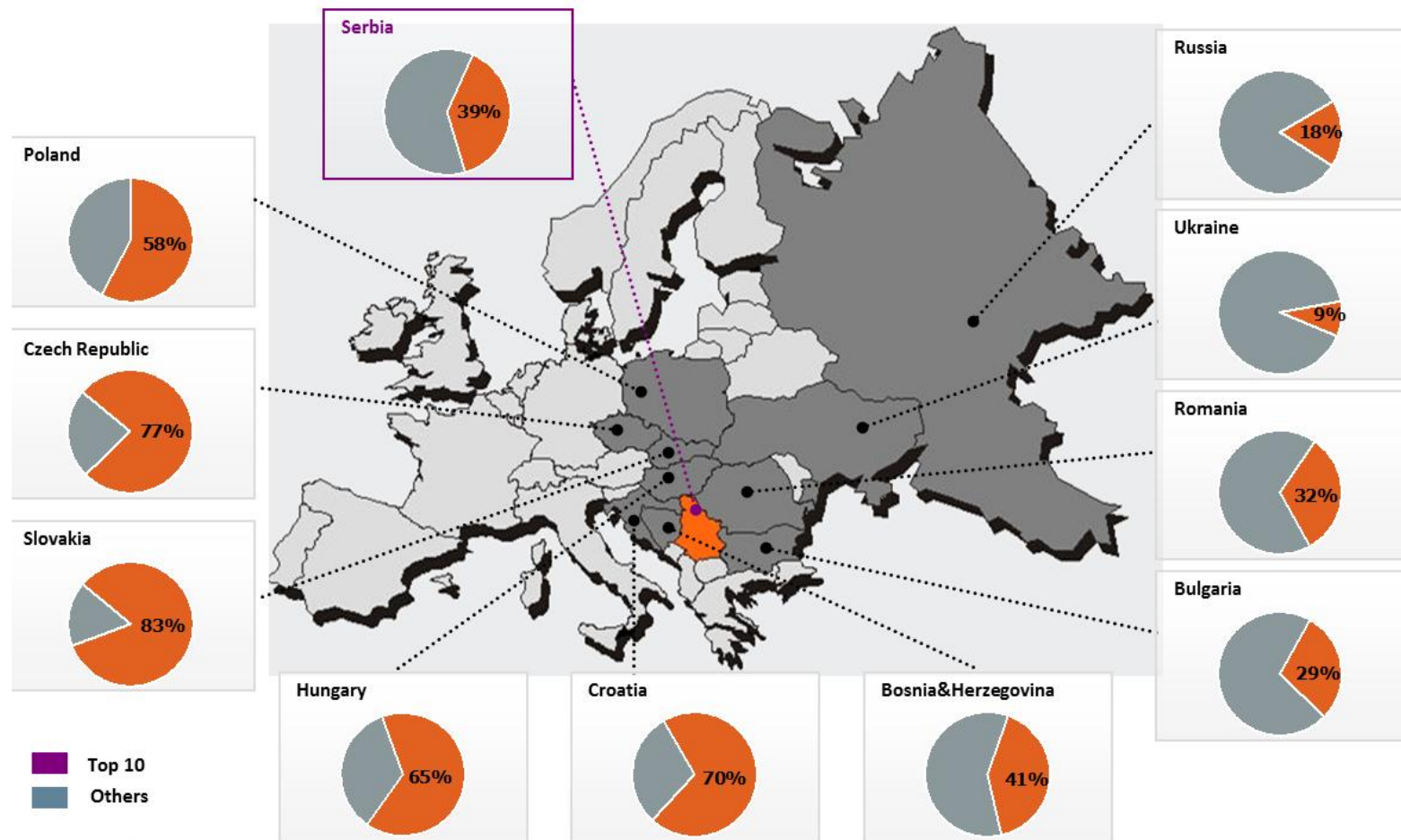
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- Decline in consumer confidence
- Expectation of worse personal financial situation
- Shopping at several retailers – searching for best price
- Purchase planning
- Europe: 1/3 of consumers plans to decrease resources for food and drinks purchasing (Slovenia: 1/5 of consumers)

# The rise in consolidation and competitiveness in our key markets

Concentration of power of market leaders in retail in CEE (2010)



Source: GfK

# Key challenges for the retailers

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- **Short-term challenges:** Changes in shopper behaviour due to the effect of the economic crisis on the consumers
  1. How to meet the needs in a changed shopper behaviour?
  2. How to ensure profitable operations?
- **Long-term challenges:** Retailers' responses to socio-demographic changes, life-style changes and technological changes

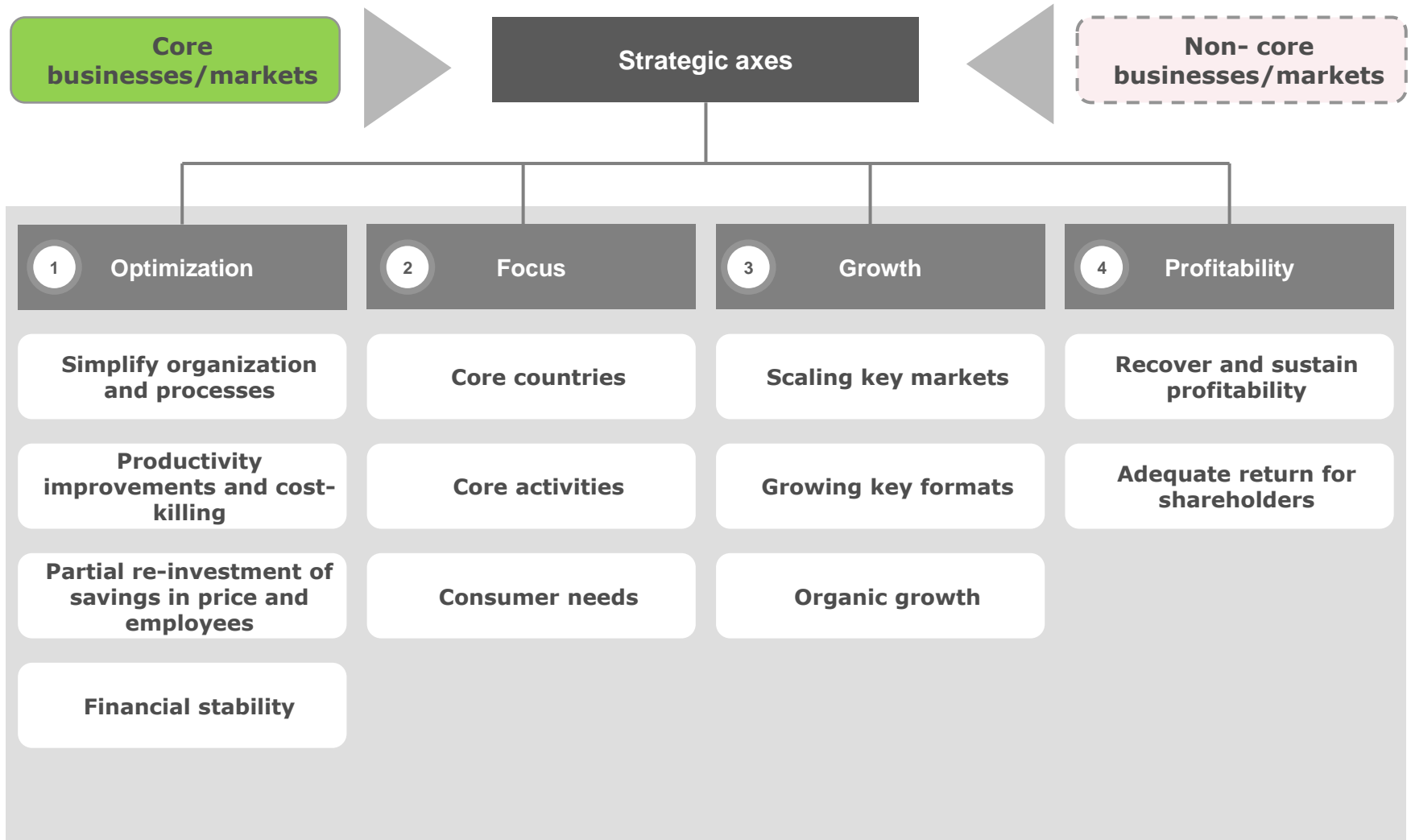
# Mercator Vision by 2016

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- Mercator will be the largest, the most successful and the most efficient retailer in the region.
- A satisfied customer recognizes us as the best retailer that offers everything a discount store can offer, and much more.
- Employees with smiles on their faces and sparkles in their eyes are our key competitive advantage. They will be able to develop their potential in a stable environment.
- We are striving towards a stable ownership structure that will support the company development based on merit and results.
- Mercator = confidence of all stakeholders.

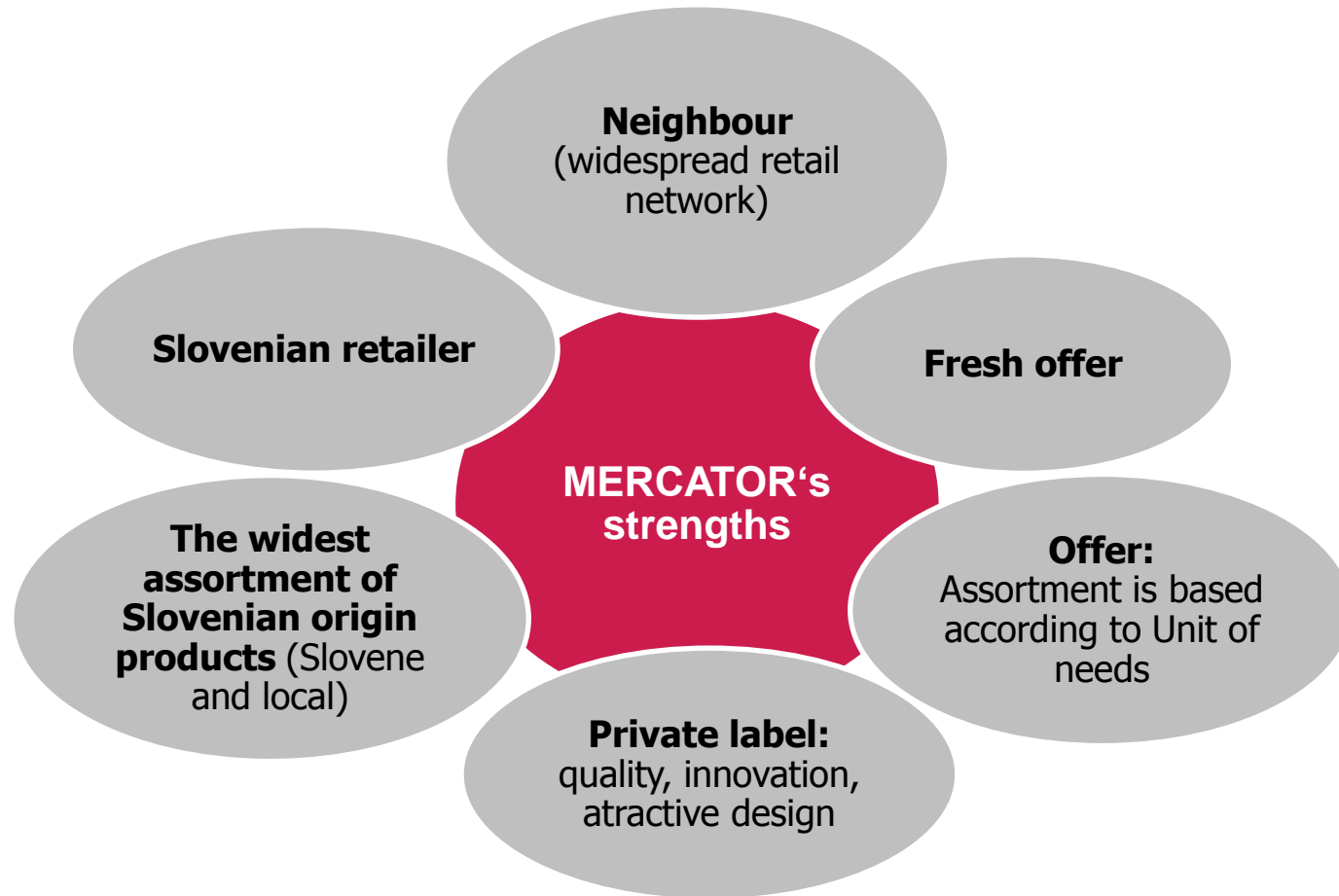


# New strategy: simplification of countries and formats with focus on profitability and growth



# In what way will Mercator differ from the competition?

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# Final thoughts

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- A story of success hides also a failure.
- Restructuring can not be carried out overnight, and yet it can be carried out with the participation of all stakeholders.
- The aim must be clear, but we need to have enough flexibility to adapt the way to it.