

Best Buy tops electronics retailer world league

Size matters

by Ian Wareham

In our coverage of retailing multiples, we have been monitoring the share price of all the companies forming our World Consumer Electronics Retailer World League for over a year, but have not yet considered their relative performance in terms of sales. The table on this page sets out the sales of ten companies (now nine as a result of the Fnac Darty merger) from the available data at the end of 2016. Best Buy is the largest consumer electronics retailer in the world, followed by Media-Saturn – no surprise. Suning Commerce Group is #3, followed by Dixons Carphone, with the last positions being occupied – for now – by M.Video and Eldorado.

The combined sales of the ten companies in the most recent year available exceeded 115 billion Euros. If the ten companies formed a nation, then according to World Bank data they would be about the 77th largest country in the world, roughly equal in GDP terms to Ghana or Tunisia. Since the gaps between the various companies are sufficiently large, one would think it's unlikely that there will be any major change in the order in the immediate future, but that would not be correct. While it is several months since we registered any of the kind of bombshells which have in the past frequently marred the progress of the companies discussed here, this time the surprises have been in the Russian market, where progress made by two companies, M.Video and Eldorado are monitored. Despite a declining market, M.Video released in December 2016 sales of 183.2 billion roubles (about US\$ 3 billion), up 13.3 percent on 2015, with progress continuing into the 4th quarter, though at a slowing rate. Online sales at 21.9 billion roubles were 27 percent up and accounted for 12 percent of total sales. M.Video managed to increase its market share and continued its

long-running expansion, particularly in eastern parts of Russia. M.Video's situation therefore looked good.

On Wednesday, December 14, the Russian Safmar Group, whose chief proprietor is poet, politician and oligarch Mikhail Gutseriev with a personal net worth of \$6.2 billion, made an agreed offer to purchase for US\$ 727 million the 58 percent of M.Video shares held by some of the company's directors, representing a premium of only 16 percent compared with M.Video's share price the day before the offer was made.

That was not all. The previous Friday, December 9, Safmar announced separately that it had bought for an undisclosed price Eldorado, which is M.Video's main, but currently not very successful rival in the Russian retail consumer electronics market. Its sales in 2015 at 1.5 billion Euros were a third down on the previous year's. The previous owners of Eldorado were two closely associated Czech companies, PPF and Emma Capital.

These moves were not Safmar's first sally into the retail electronics market. In 2015, it bought Tekhnosila, another smaller Russian consumer elec-

tronics retail chain. In a few months, Safmar could therefore control a huge proportion of the Russian retail consumer electronics market. There is still though the possibility that the M.Video deal will not go through as it is subject to regulatory approval. In 2013, M.Video attempted a merger with Eldorado, which did not receive approval and therefore had to be abandoned.

Number four in the world ranking?

Safmar's objective is to build a business which will have sales of a trillion Russian roubles, i.e. about US\$17 billion. That will make it number four in the world, still smaller than Best Buy, Media-Saturn and Suning Commerce Group, but forcing Dixons Carphone down to the number five position. These three acquisitions will enable Mikhail Gutseriev to diversify his business interests, the most important of which is currently RussNefit, the Russian oil colossus. Gutseriev has in the meantime announced that he does not intend to change the status of M.Video's shares on the Moscow Stock Exchange and that the company's whole existing management team will stay in place. Eldorado was not mentioned in the statement, so whether it or Tekhnosila will be integrated into the M.Video operation is uncertain. The only one of the companies monitored here which could be directly impacted is Media-Saturn, which has an extensive and successful operation in Russia. Total world company sales at 21.9 billion Euros in 2016 only increased by 0.6 percent, though they were adversely affected by currency movements. If they are taken out, sales would have been 1.6 percent up. That sounds better, but it is necessary to note like-for-like sales over the year were only 0.1 percent up. 33 new stores were opened and 17 were closed, about half of the latter in Russia, leaving a total of 61 stores in that country open for business. The group's poor performance was mainly the result of a decline in sales in Germany and in Western Europe, which was not compensated for by an increase in Eastern Europe. Media-Saturn's spin-off from Metro AG is proceeding on schedule and should be completed during the summer.

Within the Media-Saturn business, Redcoon, the stand-alone Internet business bought in 2012 suffered a marked decline in its sales, only partly as a result of rationalisation and re-organization. It is worth remembering that Dixons Carphone had similar problems with Pixmania which it bought in 2012 and operated as a separate business, but

Consumer Electronics Retailer World League

Ranking	approx. year	local currency (bn)	approx. Euros (bn)
1. Best Buy	2015/2016	\$39.5	37.22.
2. Media-Saturn	2014/2015	€21.7	21.7
3. Suning Commerce	2016	CNY135.9	18.3
4. Dixons Carphone	2015/2016	£9.8	12.45
5. Gome El. Appliances	2014/2015	CNY 64.6	8.7
6. Argos	2015	£4.1	5.2
7. Fnac	2014	€3.9	3.9>>>/
8. Darty	2016	€3.7	3.7>>>/ 7.6
9. M.Video	2015	RUR183.2	2.8
10. Eldorado	2015	€1.5	1.5
Total			115.5