

AN INTERNATIONAL STUDY BY



E-COMMERCE IN RUSSIA

PRE-RELEASE VERSION – JUNE 2019

WITH SUPPORT FROM

lamoda **OZON** Яндекс Маркет

This is an excerpt from EWDN's international study on Russian e-commerce. Request your free copy at report@ewdn.com

ABOUT THIS STUDY



- 150+ pages of in-depth analysis, case studies, interviews and practical recommendations for companies to succeed in Russian e-commerce
- More than 50 market players and experts involved
- Wide international distribution plan with support from leading industry networks, media and events.

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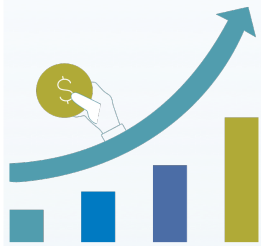
SECTION 4:

INVESTING IN RUSSIAN E-COMMERCE

RESEARCH PARTNERS:

crunchbase DSIGHT





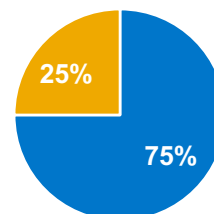
KEY FINDINGS

- In 2018, VC/PE/JV investment in Russian e-commerce **exceeded \$755 million** – the highest level ever reached in this industry.
- The year was marked by **Sberbank’s \$500 million capital injection** into an e-commerce joint venture with Yandex. This deal preceded the formation of a competing JV – combining **Alibaba, Mail.ru Group, MegaFon and the sovereign fund RDIF** – which is to receive a \$400-million capital injection. Other large deals involved **Ozon**, in which existing shareholders Sistema and Baring Vostok invested several hundred millions in 2018-2019.
- These moves reflect **renewed investor interest** in an industry which is entering a new development cycle. Russian e-commerce is expected to double or triple in the next 4-5 years, attract even larger investments and ultimately consolidate.
- Should one of the current contenders for leadership establish, in a few years, its domination on the market (like Amazon in the West or Alibaba in China), such player could be **valued as some \$10 billion**, Morgan Stanley calculated.
- By international standards, however, investment volumes in Russian e-commerce remain very tiny. They account for around **1% of global VC/PE e-commerce investment**. This is more than Russia’s share in the global VC market (less than 0.5%) but less than the country’s share in global GDP (around 2%).

GLOBAL E-COMMERCE INVESTMENT TRENDS

In 2019, international startup development platform Hexagon Generation released a research (<https://bit.ly/2ly9RdL>) on global e-commerce startup investment over five years, from 2014 to 2018. The scope of the research includes e-commerce as such as well as a variety of e-commerce enablers, from PSPs to logistics to e-commerce software. Below are some of the key findings.

- From 2014 to 2018, investments in ecommerce-related startups **grew at a compounded annual rate of 28.5%**.
- E-commerce startups raised an average of \$23.1 million per round in the last five years. They witnessed a 54.7% growth in the average investment amount per round in the period between 2014 and 2018. Thus, **in 2018, ecommerce-related startups raised \$66.3 million on average per round**.
- From 2014 to October 2018, 17,209 deals were signed for investments in different stages of funding. While investment amounts climbed up, the period saw a **decrease in the annual number of deals** (-15.6% y-o-y on average). The trends indicate an increased focus on value based investing by investors rather than the option of taking a mass approach.
- **Multi-product e-commerce ventures accounted for almost 35% of the total number of deals** on an average, year over year. Their share of total investment volume exceeded one third in 2018.
- **The highest-growth regions were East-Asia (China, HK, Japan, SK), South-East Asia, South Asia and East Africa**. Meanwhile, e-commerce investment declined Western Asia Eastern Europe Southern Europe



GLOBAL INVESTMENT IN E-COMMERCE STARTUPS: SPLIT OF INVESTMENT BY TYPE OF VENTURE

BASE: TOTAL INVESTMENT AMOUNT FROM 2014 TO 2018

- Online retail & marketplaces
- E-commerce enabling ventures

SOURCE: HEXGN ([HTTPS://BIT.LY/2LY9RDL](https://bit.ly/2ly9RdL))

GLOBAL INVESTMENT IN E-COMMERCE: SPLIT BY SEGMENT

Segment	Annual growth rate 2014-2018	Share of total investment volume in 2018
Multiproduct retail	38,4%	33,6%
Fintech (PSPs)	28,4%	21,3%
Transportation & logistics	24,4%	15,7%
Food & beverage	35,1%	8,2%
Education services	10,0%	N/A
Clothes & apparels	1,0%	N/A
Real estate & home décor	32,6%	3,5%
Health & MedTech	14,4%	N/A
Sports & recreation	26,1%	N/A
Travel & Tourism	30,5%	N/A
Consumer electronics & hardware	9,0%	2,1%
Agricultural e-commerce	N/A	1,6%
Home needs	15,2%	N/A
Software & SaaS	N/A	N/A

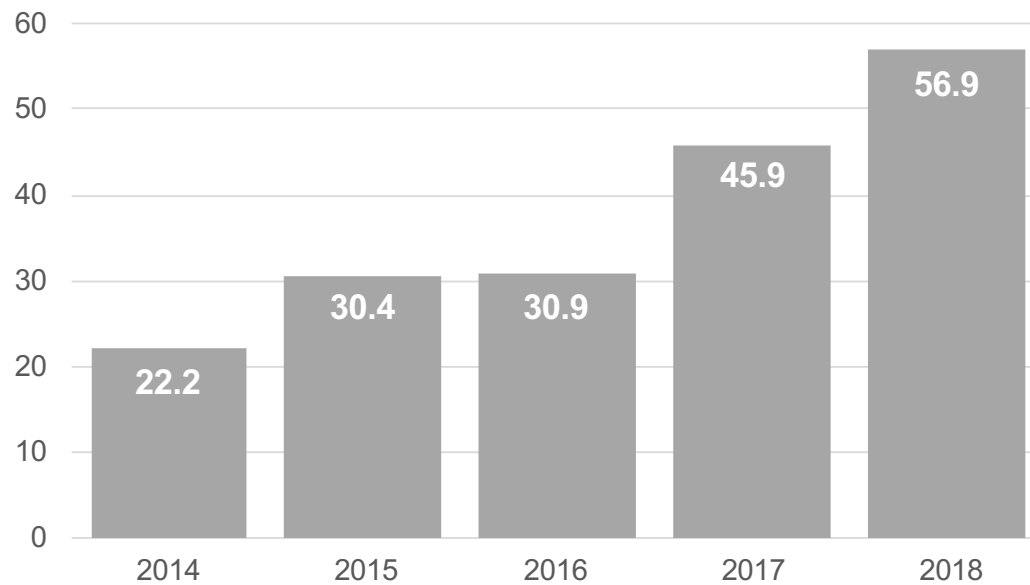
SOURCE: HEXGN ([HTTPS://BIT.LY/2LY9RDL](https://bit.ly/2ly9RdL))

GLOBAL E-COMMERCE INVESTMENT ESTIMATES

crunchbase



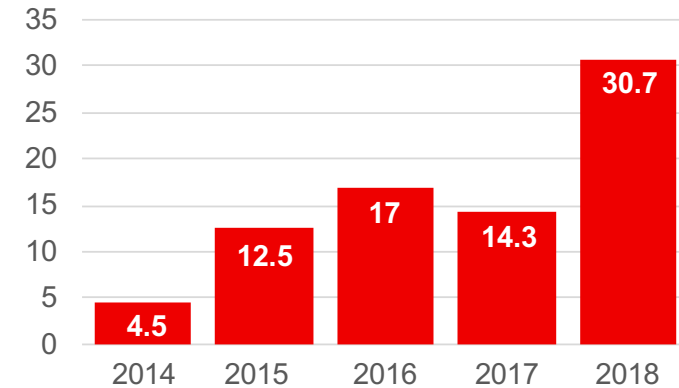
GLOBAL E-COMMERCE VC/PE INVESTMENT VOLUME (2018)
IN BILLION USD



SOURCE: CRUNCHBASE SPECIAL TO EWDN



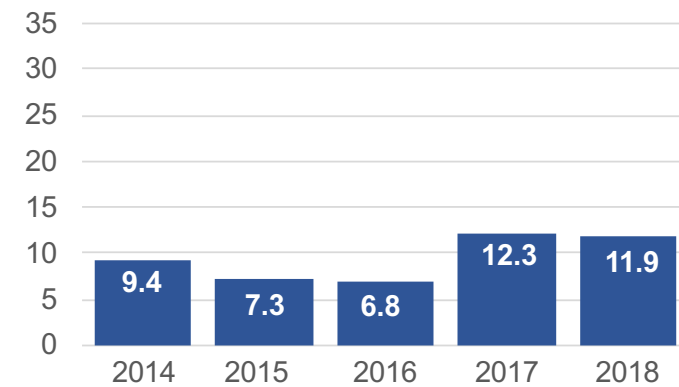
VC/PE INVESTMENT IN CHINA (2018)
IN BILLION USD



SOURCE: CRUNCHBASE SPECIAL TO EWDN



VC/PE INVESTMENT IN THE USA (2018)
IN BILLION USD

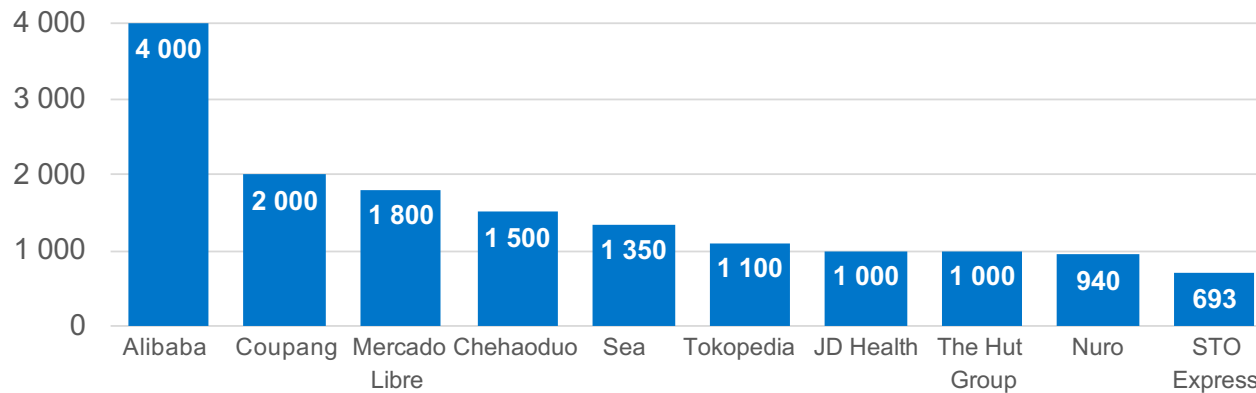


SOURCE: CRUNCHBASE SPECIAL TO EWDN

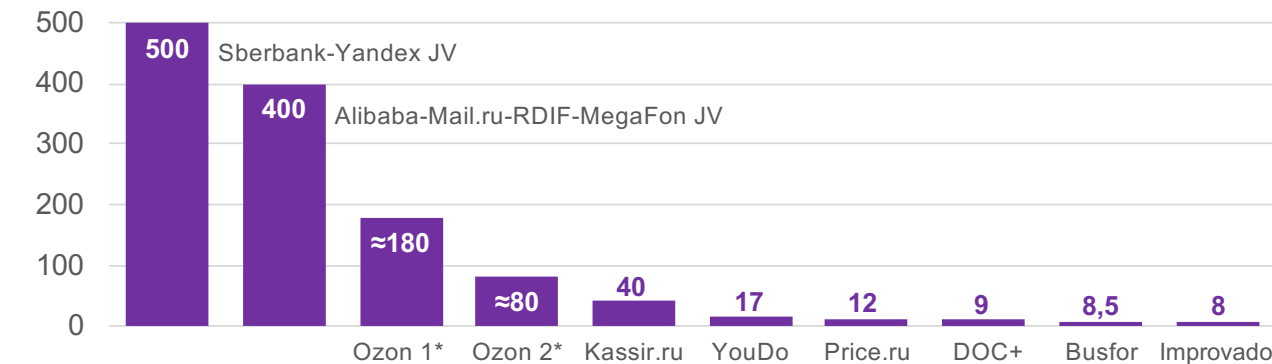
RUSSIA ON THE GLOBAL E-COMMERCE INVESTMENT SCENE



TOP 10 E-COMMERCE VC/PE DEALS GLOBALLY, JUNE 2018-JUNE 2019 IN BILLION USD



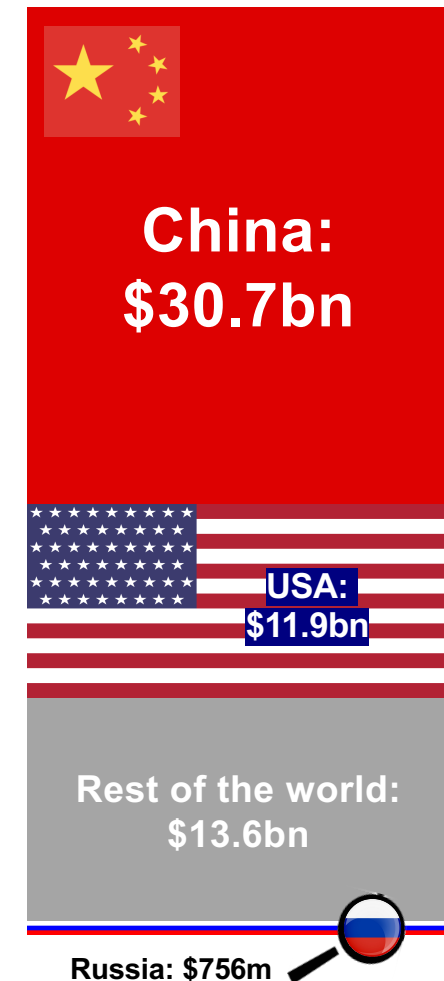
TOP 10 E-COMMERCE VC/PE DEALS IN RUSSIA, JUNE 2018-JUNE 2019 IN BILLION USD



* Ozon 1: Fraction of the \$84m funding agreed in Q1 2018, injected in Q4 2018 + \$154m convertible loan received in H1 2019 (source: Ozon) – Ozon 2: In late 2018, two major shareholders agreed to buy Ozon shares from minority shareholders (source: EWDN from source close to one of the parties involved)

SOURCES: CRUNCHBASE (GLOBAL), DSIGHT & EWDN (RUSSIA)

RUSSIA IN GLOBAL E-COMMERCE VC/PE INVESTMENT VOLUME (2018)

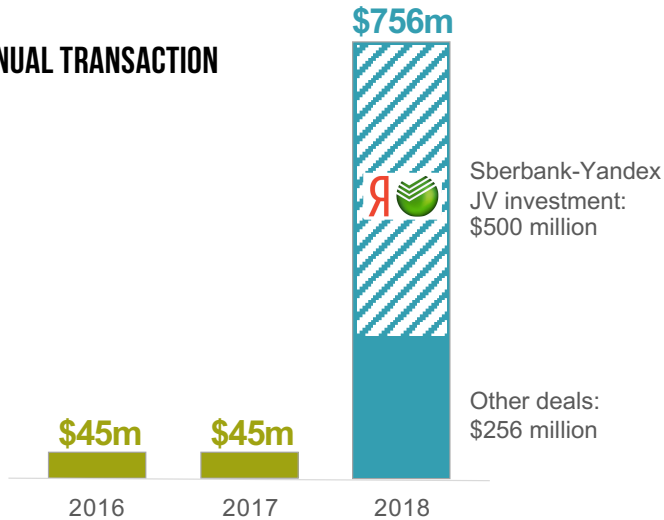


SOURCES: CRUNCHBASE (GLOBAL), DSIGHT (RUSSIA)

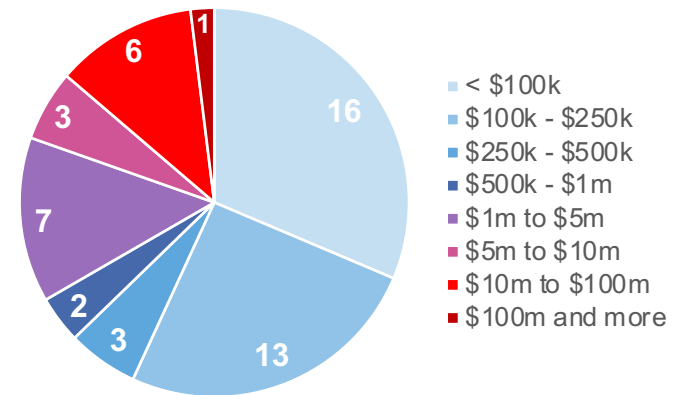
RUSSIAN E-COMMERCE VC/PE/JV DEALS 2017-2018



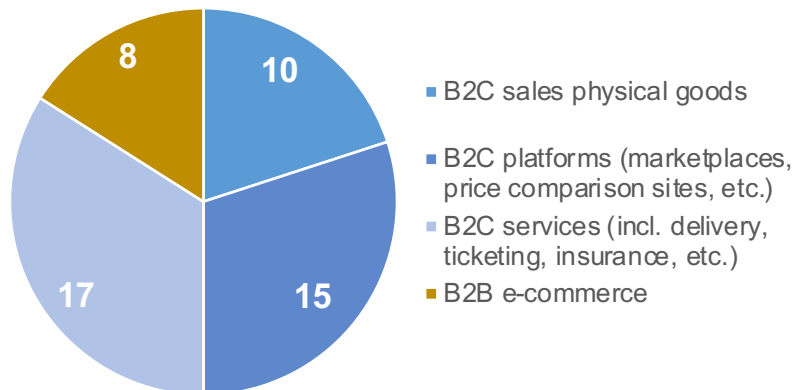
TOTAL ANNUAL TRANSACTION VOLUME:



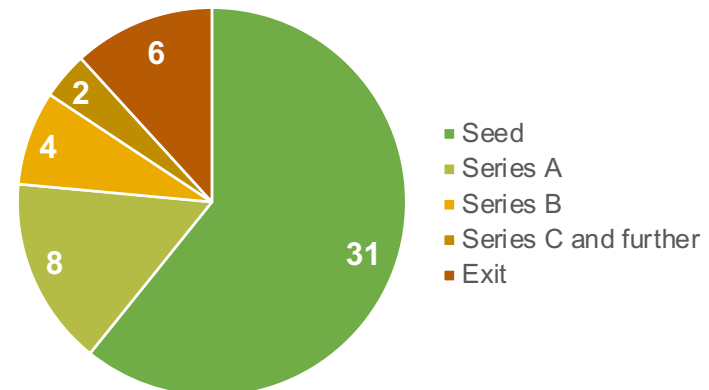
NUMBER OF DEALS BY AMOUNT:



NUMBER OF DEALS BY TYPE OF VENTURE:



NUMBER OF DEALS BY TYPE :



INCLUDING: B2C PHYSICAL GOODS, B2C PLATFORMS (MARKETPLACES...), B2C SERVICES (DELIVERY, TICKETING...), B2B E-COMMERCE – EXCLUDING: B2C DIGITAL CONTENT, E-COMMERCE ENABLERS (SOFTWARE, LOGISTICS, MARKETING...)

RUSSIAN E-COMMERCE VC/PE/JV DEALS 2017-2018



Date	Target	Investor	Investor type	Deal type	Deal value	Company maturity stage	Type of round	Sector
Jan-17	OneTwoTrip	Vostok New Ventures	Fund	VC	\$5,800,000	Expansion	Exit	B2C services
Jan-17	AVA EVA	Alexandr Rumyantsev	Angel	VC	\$10,000	Seed	Seed	B2C sales of physical goods
Jan-17	Golod	Mikhail Sokolov	Angel	VC	\$900,000	Startup	A	B2C services
Jan-17	Getlooky	IIDF	Fund	VC	\$40,000	Seed	Seed	B2C services
Jan-17	Tehocenka	IIDF	Fund	VC	\$40,000	Seed	Seed	B2B e-commerce
Mar-17	Shelly	AltIR Capital	Fund	VC	\$1,200,000	Growth	Seed	B2C services
Mar-17	Instamart	Gazprom-Media	Fund	VC	\$300,000	Startup	A	B2B e-commerce
Mar-17	Darenta	Alexandr Rumyantsev	Angel	VC	\$20,000	Growth	Seed	B2C platforms
Mar-17	Babadu	Bank Saint Petersburg	Corporate	VC	\$3,200,000	Growth	B	B2C sales of physical goods
Mar-17	KidsWay	IIDF	Fund	VC	\$250,000	Startup	A	B2C services
May-17	Am.ru	Mail.ru Group	Corporate	VC	\$10,000,000	Expansion	Exit	B2C platforms
May-17	Exist.ru	Evgeniya Nazarova	Angel	VC	\$12,500,000	Expansion	Exit	B2C sales of physical goods
May-17	Prod.Center	AltIR Capital	Fund	VC	N/A	Seed	A	B2C platforms
Jun-17	DOC+	Baring Vostok, Yandex	Fund	VC	\$5,000,000	Growth	B	B2C services
Jun-17	Sdelano	Cabra.vc	Fund	VC	\$750,000	Startup	A	B2C services
Jun-17	Foodfox	Target Global, Alexandr Chernyak	Fund	VC	\$5,000,000	Growth	A	B2C services
Jun-17	2work.co	Alexandr Rumyantsev	Angel	VC	\$20,000	Startup	Seed	B2C services
Jun-17	DandyBox	Igor Rybakov	Angel	VC	\$40,000	Seed	Seed	B2C sales of physical goods
Jun-17	Aveeva.ru	IIDF	Fund	VC	\$40,000	Seed	Seed	B2C sales of physical goods
Jan-18	Prod.Center	AltIR Capital	Fund	VC	\$5,000,000	Seed	Seed	B2C platforms
Feb-18	Little Gentrys	IDEA+	Fund	VC	\$120,000	Seed	Seed	B2C sales of physical goods
Feb-18	Wardrobe In Your Mobile	NUMA	Fund	VC	\$20,000	Seed	Seed	B2C sales of physical goods
Feb-18	Swaper	Emin Agalarov	Angel	VC	\$200,000	Seed	Seed	B2C platforms
Feb-18	Kidkin	Igor Rybakov	Angel	VC	\$160,000	Seed	Seed	B2C platforms
Mar-18	Ozon	Baring Vostok, MTS	Fund	VC	\$61,000,000	Mature	C+	B2C sales of physical goods
Mar-18	Autosince.ru	Alexandr Rumyantsev	Angel	VC	\$40,000	Seed	Seed	B2C services

INCLUDING: B2C PHYSICAL GOODS, B2C PLATFORMS (MARKETPLACES...), B2C SERVICES (DELIVERY, TICKETING...), B2B E-COMMERCE – EXCLUDING: B2C DIGITAL CONTENT, E-COMMERCE ENABLERS (SOFTWARE, LOGISTICS, MARKETING...)

RUSSIAN E-COMMERCE VC/PE/JV DEALS 2017-2018



Date	Target	Investor	Investor type	Deal type	Deal value	Company maturity stage	Type of round	Sector
Apr-18	Yorso	Pulsar Venture Capital	Fund	VC	\$120,000	Seed	Seed	B2B e-commerce
Jul-18	Kassir.ru	Tinkoff Bank	Corporate	PE	\$40,000,000	Mature	Exit	B2C services
Aug-18	NWP Solution	Starta Capital	Fund	VC	\$130,000	Seed	Seed	B2C services
Aug-18	Mflowers	Yellow Rokets	Fund	VC	\$30,000	Startup	Seed	B2B e-commerce
Aug-18	StilusBot	Sberbank accelerator	Corporate	VC	\$80,000	Startup	Seed	B2C services
Aug-18	DOC+	Vostok New Ventures, Baring Vostok, Yandex	Fund	VC	\$9,000,000	Expansion	B	B2C services
Aug-18	Prod.Center	Fosun International	Corporate	VC	\$500,000	Startup	A	B2C platforms
Sep-18	Surprize Me	Alexandr Rumyantsev	Angel	VC	\$20,000	Seed	Seed	B2C services
Sep-18	Autospot	Mitsubishi Corp., Mail.ru Group	Corporate	VC	\$4,100,000	Growth	A	B2C platforms
Sep-18	YouDo	MTS	Corporate	VC	\$17,000,000	Mature	B	B2C platforms
Oct-18	Roomberry	IIDF	Fund	VC	\$40,000	Seed	Seed	B2C platforms
Oct-18	Techget	IIDF	Fund	VC	\$40,000	Seed	Seed	B2B e-commerce
Oct-18	Umnyi Polis	IIDF	Fund	VC	\$40,000	Seed	Seed	B2B e-commerce
Oct-18	Salery	Admitad Invest	Corporate	VC	\$350,000	Startup	Seed	B2C platforms
Oct-18	Ozon	Baring Vostok, MTS	Fund	VC	\$23,000,000	Mature	C+	B2C sales of physical goods
Nov-18	Price.ru	S8 Capital	Corporate	PE	\$12,000,000	Mature	Exit	B2C platforms
Nov-18	Aizel.ru	Genome Venture	Fund	VC	\$2,000,000	Growth	Exit	B2C sales of physical goods
Nov-18	KamaTara	KAMAZ	Corporate	VC	\$120,000	Seed	Seed	N/A
Nov-18	Promagregator	KAMAZ	Corporate	VC	\$120,000	Seed	Seed	B2b e-commerce
Nov-18	Fish.Travel	Sberbank-500	Fund	VC	\$150,000	Startup	Seed	B2C platforms
Nov-18	Rentmania	Sberbank-500	Fund	VC	\$150,000	Startup	Seed	B2C platforms
Nov-18	Sputnik8	Sberbank-500	Fund	VC	\$150,000	Startup	Seed	B2C services
Nov-18	Yorso	Sberbank-500	Fund	VC	\$150,000	Startup	Seed	B2B e-commerce
Nov-18	Zenome	Sberbank-500	Fund	VC	\$150,000	Startup	Seed	B2C services
Dec-18	Ozon*	N/A	Corporate	VC	≈ \$80,000,00	Mature	C+	B2C sales of physical goods
2018	Yandex Market group	Sberbank	Corporate	JV	\$500,000,00	Mature	Seed	B2C platforms

* In late 2018, two major shareholders agreed to buy OZON shares from minority shareholders. The transactions, totaling around \$80 million, were completed in late 2018-early 2019, a source close to one of the parties involved told EWDN.

INCLUDING: B2C PHYSICAL GOODS, B2C PLATFORMS (MARKETPLACES...), B2C SERVICES (DELIVERY, TICKETING...), B2B E-COMMERCE – **EXCLUDING:** B2C DIGITAL CONTENT, E-COMMERCE ENABLERS (SOFTWARE, LOGISTICS, MARKETING...)



RUSSIAN E-COMMERCE INVESTMENT TREND ANALYSIS

BY ARSENIY DABBAKH, CO-FOUNDER OF
INVESTMENT ANALYTICS PLATFORM DSIGHT

AN INVESTOR FAVORITE

For almost a decade, e-commerce has almost always been the most well-funded segment in Russian venture investment statistics. Thus, in 2018 this industry accounted for the better part of Russian VC investment: nearly \$730 million out of \$1.2 billion, if including Sberbank's \$500 million injection in the Yandex Market JV.

In classic e-commerce (physical goods), investors are attracted by the fast growth and important potential of a market still at its early stages, if judging by the level reached in most Western and Asian countries. Among e-commerce growth drivers in Russia over the past decade have been the spectacular expansion of Internet and mobile communications, which now involve a very large part of the population, as well as the emergence of new technologies and new consumer patterns.

Last but not least is the considerable development of the infrastructure, from fulfilment and logistics to software and hardware solutions. Thus, e-commerce accounts for up to 26% – depending on the years – of the demand for warehouse surface in the Moscow region, according to Knight Frank. And these trends are here to stay.

Investment activity in digital goods and service e-commerce – companies selling online event tickets or taxi services, for example – have been significant, too, by Russian standards.

Mail.ru Group and Yandex are competing in food delivery, taxi, tickets, car-sharing and other segments. They both invest through M&A and R&D activities.

VTB, Sberbank and Tinkoff are struggling to build an ecosystem for their banking clients, providing additional lifestyle services.

Telcos such as MTS, Tele2, Beeline and MegaFon are following the same path as banks and increase tech scouting and investments. They, too, aim to build all-around services for client base. These players inject hundreds of millions of dollars of investments in the hi-tech ecosystem.



RUSSIAN E-COMMERCE INVESTMENT TREND ANALYSIS

A DECADE OF HIGHS AND LOWS

Investors have not always been evenly active during this decade. The first wave of e-commerce investment took place in 2010-2014. Ozon.ru raised (<https://bit.ly/2MNMxlp>) a record \$100 million in 2011, then \$150 million in 2014. Rocket Internet's creature Lamoda secured \$130 million from Western funds in 2013, soon after getting \$60 million from JP Morgan. KupiVip (<https://bit.ly/2KS7owr>), Wikimart and a few others also raised considerable amounts.

These were golden years, involving both domestic and foreign investors. Many successful business models, like Gilt or Zappos, had not been applied yet to Russia and competition was still relatively low.

The next years were harder. In 2015, volume of investment fell 65% year-on-year, reaching a mere \$137 million. (However, that year also saw Russia's first unicorn exit with Naspers buying classifieds platform Avito at a \$2.7 billion valuation <https://bit.ly/2KamSfv>)

While successful western business models had already been copied or adapted, young e-commerce companies had to put up with unstable market conditions as the ruble fell sharply in 2014-15. Investors got a better understanding of the concrete operational and financial challenges of such ventures. Meanwhile, the lack of immediate exit prospects appeared more and more obviously.

The international tensions, which have bubbled since the Ukrainian crisis started in 2014, did not raise Russia's appeal to international investors (<https://bit.ly/2XHvL3y>). None of the Western funds which had been active in 2010-2014 – such as Bessemer Ventures, eVentures, Mangrove Capital Partners, Tiger Global Management, or Ventech – have made any significant deals since then.

These years also saw the agony of two major web sites, which had been mostly funded by Western investors: Wikimart (<https://bit.ly/2uoTLO6>) launched in 2008 as “the Russian eBay,” and Oktogo, an online travel agency. The latter could have been salvaged should its Russian, state-controlled investor have shown a bit more flexibility.

At the same time, however, traditional players showed renewed interest in developing online sales. This was an impressive new wave involving such players as Perekrestok (X5 Group), Magnit, Okey and a range of Western retailers.

Since 2017-2018, Russian e-commerce seems to be entering a new investment cycle. Sberbank invested \$500 million (<https://bit.ly/2vUu7PY>) in its e-commerce joint-venture with Yandex (2017-2018), Alibaba and Mail.ru Group stroke an ambitious alliance (<https://bit.ly/2K7lZo8>), while Ozon secured two rounds of investment, the latest one in Q1 2019 amounting to \$150 million (<https://bit.ly/2Xkc5m7>).

The recent years also saw important deals in the field of digital services. These deals included Tinkoff's investment in Kassir.ru (\$40 million <https://bit.ly/2wOJXMm>) and UFG's \$100 million investment in RuTaxi. Gett, which has some Russian origins, received \$80 million from a consortium that includes Access Industries, Baring Vostok, MCI and Volkswagen Group.

The positive trends of the past few years are expected to continue, involving corporations as well as both PE/VC investors. These may equally be domestic and foreign investors – from Asia, the Middle-East and the EU.

However, even in the best years, e-commerce investment numbers looked modest by global standards – or simply compared with investment in the Russian retail industry. As noted by Morgan Stanley in their recent report on Russian e-commerce (<https://bit.ly/2LC8mPu>) investment in “classic” e-commerce (excluding services) amounted to just around \$800 million over the past decade, which is no more than 1% of total investment in retail.



RUSSIAN E-COMMERCE INVESTMENT TREND ANALYSIS

SUCCESS STORIES AND FAILURES

Among the successes – if taking e-commerce in the largest sense of the term – is iTech Capital's investment in Ticketland: the fund exited when MTS for \$53 million in 2018. Other successful exits are Avito, which was sold to Naspers at a \$2.7 billion-\$3.85 billion valuation (<https://bit.ly/2WlqDz2>) and HeadHunter, which raised \$220 million on the NASDAQ in spring 2019 (<https://bit.ly/2Rg44wx>).

In classic e-commerce, a few spectacular failures took place: these include Wikimart and Oktogo as well as Enter and Ulmart. These are two original online-offline hybrids: the former went bankrupt in late 2017, the latter might survive but its activity has been severely affected by a shareholder dispute.

Another cause for disappointment for financial investors is that no major VC-backed e-commerce company – from Ozon, to KupiVIP, to Lamoda – have managed to exit so far.

WHY STILL INVEST IN RUSSIAN E-COMMERCE?

Investors can be motivated by the fact that company valuations are significantly lower in Russia than in the EU, the USA or Asia. However, the sector is attractive only to a limited number of strategic investors like Sberbank, Severstal or Mail.ru Group. And those look at late-stage companies that could make significantly impact on their business in a relatively short period. Thus, the investment market lacks early-stage investors that can close the gap between seed and late-stage startups.

Nevertheless, I expect newcomers to invest in e-commerce more and more actively – from in-house innovation to startup investment or acquisition, – triggering VCs to make early investments with hope to get fast exits. These newcomers are numerous in such fields as banks (such as Tinkoff, Alfabank, Sovcombank, VTB, Otkrytie, Qiwi...), telcos (including Megafon and Beeline) and large IT companies like IBS, Lanit, or Croc.

Among ecommerce-friendly financial investors are Baring Vostok, Elbrus, RDIF, UFG as well as several family offices affiliated with large industrial or financial groups. These investors usually target fintech services, ride-hailing startups, e-commerce enabling solutions, the sharing economy (YouDo, HeadHunter) and logistics solution providers.

(June 2019)

- o Arseniy Dabbakh is one of the most active members of the Russian PE/VC community. He co-founded investment analytics platform Dsight (<http://dsight.ru>) and is a board member of the NAIMA investment association (<http://naima-russia.org>).



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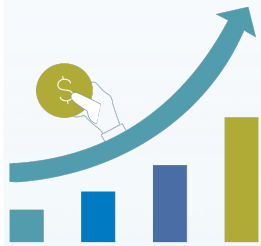


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EXECUTIVE INTERVIEWS

- **Ozon Group CFO Daniil Fedorov:** “Our plan is to double the business every year, gaining market share aggressively to boost company valuation”
- **Lamoda co-founder and CEO Florian Jansen:** “Lamoda is virtually the only major pure player in the fashion segment”
- **Yandex Market executives Evgeniy Schepelin and Alex Vassiliev:** How Yandex Market aims at leadership



**OZON GROUP CFO DANIIL FEDOROV:
“OUR PLAN IS TO DOUBLE THE BUSINESS
EVERY YEAR, GAINING MARKET SHARE
AGGRESSIVELY TO BOOST COMPANY
VALUATION”**

In less than a year, Ozon raised more than \$200 million in two rounds. Is it that easy for Russian e-commerce companies to raise money in the current domestic and international context?

We see a very strong interest in e-commerce in general and OZON in particular both from international and local investors. Three factors are appealing: the company’s hyper growth [+73% in sales volume in 2018 y-o-y]; Russia’s big target consumer market; and the trend of consumers shifting online. We expect to remain the most appealing player in investors’ eyes since we are growing 3.5 times faster than the market – which implies substantial value creation for our existing and new shareholders.

We have very strong investors who have supported our business over the years. They’re supporting as well our strategy of aggressive growth as they see the potential to build a multi-billion dollar company.

Will this funding be enough to sustain competition with the two emerging giants? Will your shareholders be able to put on the table as much as Sberbank, Alibaba, Mail.ru Group, RDIF?

We welcome competition, and the more investments into Russian e-commerce infrastructure, the better, since this is essential for market development. It is also important to note that the market remains fragmented and relatively little developed, accounting for just 5% of the Russian retail turnover. Thus, we do not compete with other e-commerce players as much as we all together we compete with offline retail; together we can grow our sector, build a sufficient logistics infrastructure and accelerate the shift in customers’ habits.

We expect to grow by more than 100% in 2019 after launching more than 30 new products and projects in last 10 months. This demonstrates our capacity to attain an even stronger position in the market.



DANIIL FEDOROV: “OUR PLAN IS TO DOUBLE THE BUSINESS EVERY YEAR, GAINING MARKET SHARE AGGRESSIVELY TO BOOST COMPANY VALUATION”

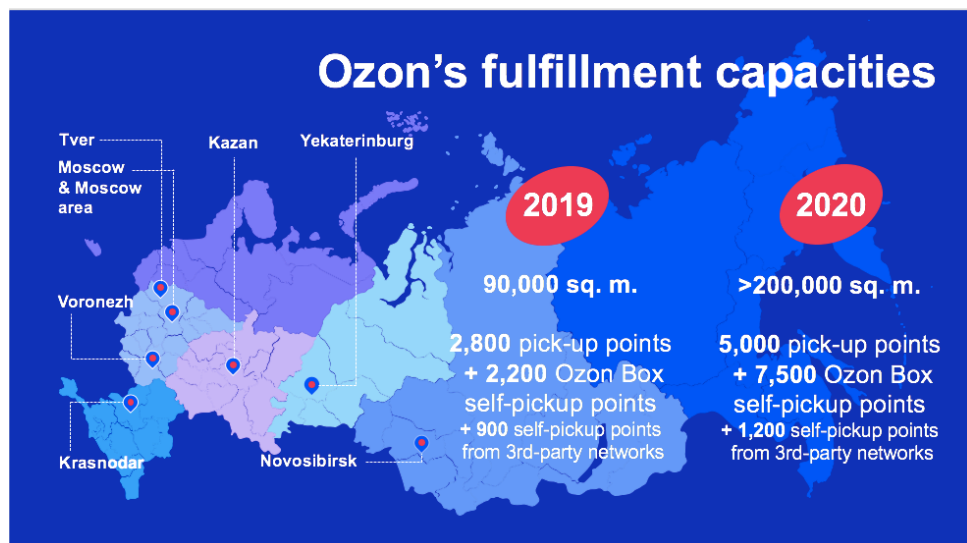
There are very few exits in Russian e-commerce... what do your investors expect?

The plan is to double the business every year and gain market share aggressively to boost company valuation. An IPO would be the preferred scenario for both our shareholders and management.

Do you expect market entries from international e-commerce giants with potential acquisitions?

We see a very strong interest to e-commerce from international investors as it is one of the fastest-growing sectors of the Russian economy.

(June 2019)



SISTEMA: "PLACING A STRATEGIC BET ON THE FAST-GROWING E-COMMERCE SEGMENT"

After acquiring shares from minority shareholders, Sistema, a major Russian conglomerate, owns a 19.3% stake in Ozon, while its corporate fund Sistema_VC, holds another 16.3% stake as of June 2019.

In an exchange with EWDN, the group's press service said: "Sistema plans to continue expanding its presence in the Russian e-commerce market. Its nearest plans include increasing its stake in Ozon to around 40% (including Sistema_VC's stake) by acquiring shares from other investors and to support its business growth with capital injections. Sistema's equity holding in Ozon means that it is placing a strategic bet on the fast-growing e-commerce segment."

Ozon's competitive advantages include a broad product assortment, in-house logistics infrastructure, a recognized brand, a high level of customer support and a recently-launched marketplace. Ozon's strong team, which has already achieved impressive growth rates, is able to ensure the company's technological and market leadership in a segment that is extremely fragmented and undergoing consolidation. We believe that the implementation of Ozon's business plan will enable us to build the leader in the Russian e-commerce market."

We believe this market has high growth potential. It is continuing to grow, with growth projected to remain 20%-30% per annum in the next three years. The current penetration of the segment (5% of total retail turnover) is significantly lower than in more advanced countries (10%-15% in Western countries and over 20% in China and South Korea): it can double over the next five years, say experts."

Sistema has other footholds in Russian e-commerce. In particular, it controls Detski Mir, the children's goods leader in Russia, and MTS, a major mobile operator, which have developed a substantial online presence.



**LAMODA CO-FOUNDER AND CEO
FLORIAN JANSEN: “LAMODA IS VIRTUALLY
THE ONLY MAJOR PURE PLAYER IN THE
FASHION SEGMENT”**

How do you see the current state of e-commerce in Russia and its future prospects?

In 2011, when I started doing business in Russia, the market was very small, though promising; and until recently it grew at relatively quiet pace. E-commerce penetration is historically lower than in most Western countries: in grocery for example, online sales account for approximately 1% of the market vs. 3-4% in advanced countries.

But, over the past one-two years, we have witnessed a notable acceleration. The market is close to a tipping point that will lead to more adoption across consumer groups and in different shopping segments. Meanwhile, several very large multi-category players are asserting themselves and contending for leadership, including existing players like Ozon and Wildberries, and such new entrants as Yandex Market, backed by Sberbank, and the Alibaba/Mail.Ru Group alliance.

What about the fashion segment?

There's a huge growth potential here. Only 6% to 7% of fashion goods are purchased online in Russia vs. 25% or 30% in Europe. But Russia is catching up fast: in 2018, the fashion segment grew by 30%, according to the AITC (AKIT) association, while the average market growth rate for e-commerce was 20%.

This segment was worth an estimated 500 billion rubles (nearly \$8 billion) last year, including sales via marketplaces and social networks.



FLORIAN JANSEN: “LAMODA IS VIRTUALLY THE ONLY MAJOR PURE PLAYER IN THE FASHION SEGMENT”

What differentiates Lamoda from other Russian fashion players?

Unlike in most Western countries, there are not that many fashion players in Russia. Actually, there are only three big ones: Wildberries, Lamoda and KupiVIP. But the latter has a very specific model (flash-sales), and Wildberries is no longer a fashion-focused business. Now they sell virtually anything, from home appliances, to pet food, to car parts. Thus, putting aside KupiVIP, Lamoda has become the only major fashion-focused pure player in Russia.

Even without a fashion-focus, Wildberries remains extremely strong in this segment...

Sure, but we're not doing this fashion business in the same way. Lamoda focuses on middle- and high-end products, including exclusive brands, and develop a sophisticated, inspiring user experience with quality content. It's a bit like Zalando sustaining vs. Amazon in Germany: the fact that Amazon also sells fashion items doesn't make them the first destination for fashion aficionados.

What is so specific in the Lamoda user experience?

First, Lamoda offers a very wide fashion and lifestyle assortment. Users can effortlessly move between a unique collection from niche designers to premium brands as well as lifestyle goods, cosmetics, jewellery, home decoration and gifts.

Delivery is another key part of our unique user experience. We offer the vastest range of delivery options – even more than Ozon or Wildberries do – including our own self-pickup points. We deliver same-day in Moscow and next-day in 150 cities.

All our operations are absolutely customer-focused. We have created a UX lab and a dedicated consumer research team to develop a sophisticated UX experience. Even those working in our office provide their feedback!

But Lamoda is more than a place to shop easily: it is a platform to discover fashion and lifestyle, to help users make their personal lifestyle choices for every day. We create rich content with new formats such as purchases from blogs; use machine learning for personalization, as well as sophisticated advertising technologies. This might not sound exceptional in the West, but I don't think anyone does comparable things in Russia. Such sophistication is important in all verticals, but in fashion even more than in others.

All this translates into a unique B2B proposition. It is not by chance that such brands as Calzedonia and Inditex work with us... and only with us: it seems that other platforms don't suit them.

What does this B2B offer consist in exactly?

Lamoda has the highest concentration of well-known brands. Among them are Nike, Mango, Hugo Boss, Arcadia Group, Inditex Group and many others. They work with us because of our focus on fashion, our audience, our customer service, our IT platform and our fulfilment capacity. What's more, we allow suppliers to provide content, developing jointly an online fashion ecosystem beyond just inventory. We are the only B2B provider and partner of that kind.

We are always looking forward to long-term partnerships with brands: not only those already established in Russia, but also those who need an entry point in the country. We have a double B2B offer: as a third-party service provider (including notably logistics) and as a marketplace.

At the moment, more than 2,000 companies are involved in this marketplace. While taking advantage of our ecosystem, they allow us to provide the widest possible choice, even in smaller, niche categories. All this represents a growing part of our business.



FLORIAN JANSEN: “LAMODA IS VIRTUALLY THE ONLY MAJOR PURE PLAYER IN THE FASHION SEGMENT”

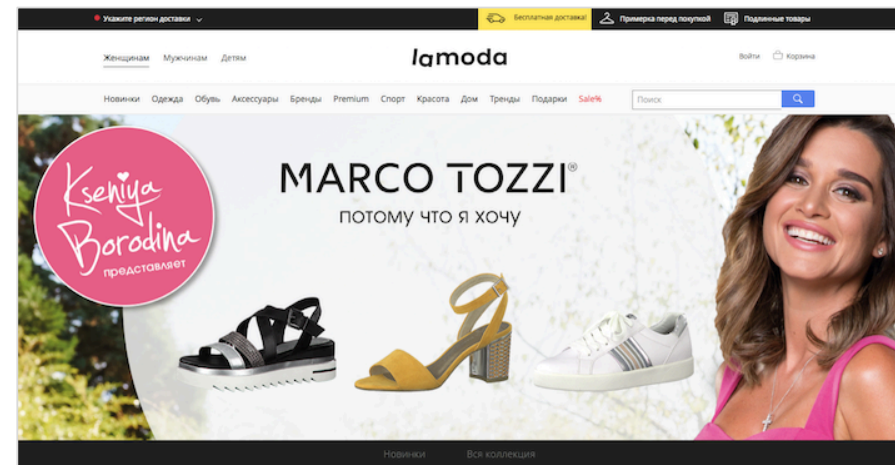
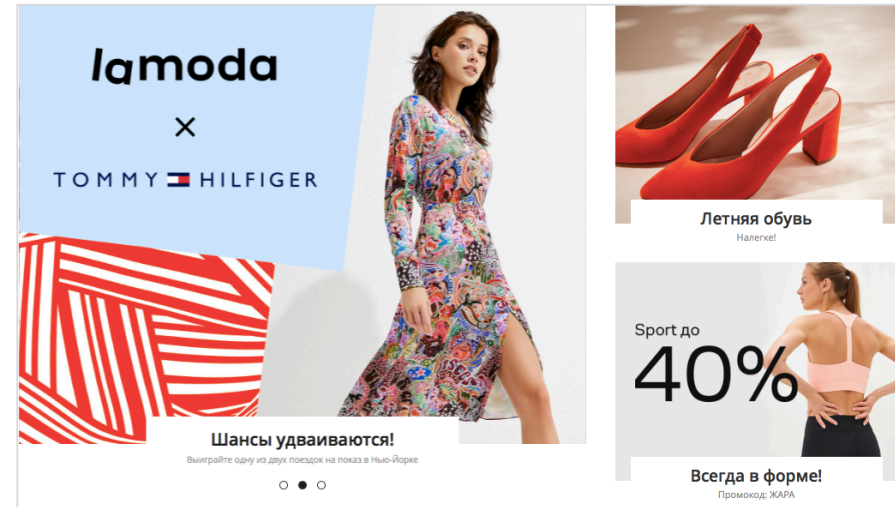
So, your business model is no longer that of a retailer?

We were a retail company when we launched in 2011. Since 2015, we have been building a platform – not dropping inventory-based retail as a business model, but articulating things around the concept of connecting buyers and sellers of goods and services. In Q1 2019, our partners’ sales through the marketplace accounted for 22.2% of total sales, more than three times as much as one year before.

Do you have any plans for offline?

Lamoda Market, our first offline store, was opened in March 2019 in Moscow, in the Atrium shopping center. It is a 1,000 square meters boutique combined with a traditional shop format and pick-up point. We also have more than 200 try-on (pick-up) points across Russia. They serve e-commerce orders through fast delivery, cash and card payments, and returns management. The largest ones, so called ‘flagship’ points, also have a kid’s corner and upselling areas with relevant goods. Expanding these try-on points is a big priority for 2019-2020, with the goal of doubling their numbers in one year.

However, Lamoda is and will remain essentially an online business. We will develop an offline presence only as adjunct online operations and a stimulation to the online business. Our offline projects (pop-up stores, Lamoda Market) are about image. It’s an opportunity to communicate with clients on another level and to introduce Lamoda to those who are still suspicious about online shopping.





FLORIAN JANSEN: “LAMODA IS VIRTUALLY THE ONLY MAJOR PURE PLAYER IN THE FASHION SEGMENT”

What are Lamoda’s latest financial results?

In the first quarter of 2019, total sales for Lamoda online stores in Russia, Belarus, Ukraine, and Kazakhstan increased by 23.5% year-on-year, exceeding €111 million (including both Lamoda-owned inventory and inventory listed through its marketplace). This growth also translated into a 3.3% gross profit year-on-year growth. This revenue and profitability surge illustrate that the re-positioning of the company into a fashion, beauty and lifestyle expert platform has been successful and will continue to be so.

How do you envision Lamoda to evolve in the future?

In the foreseeable future, the core of our model will remain the same: providing fashion and lifestyle solutions for both brands and customers. Going forward, we will keep expanding the share of marketplace goods on our platform, expecting these sales to account for half of total sales by 2022. At the same time, we are betting heavily on premium sales, which currently constitute 15% of our sales, but shows strong growth ahead.

I also see Lamoda expand even further beyond selling simply products from a catalogue, entering the lifestyle and services sphere, such as style advice. We want to inspire our customers and better enable them to discover lifestyle solutions by offering features such as ‘shop by trend’, ‘shop by style’, ‘shop by occasion.’

We are also pushing the personalization agenda very hard across the board with personalized product recommendations and catalogue sorting based on purchase history, size recommendations and much more.

Lamoda is part of Global Fashion Group, what is the level of integration?

Participation in this group implies significant synergies. GFG supports us in global brand relations, technological solutions, supply chain innovations, investor relations and many more aspects. At the same time each GFG market is run in its own way: for instance, our region is the only one where try-on is offered. Independence in local execution is critical to the success of GFG overall. Since the balance between delegation and control is satisfactory, I don’t see any real value in tighter integration at the moment.

Could Lamoda go public, raise funds, make an acquisition or even be acquired?

Investor relations, fundraising and capital allocation decision are a prerogative of GFG. They are currently reviewing several options to raise additional funds.

As for a potential acquisition, we don’t have any concrete offers right now in Russia, but such outcome is possible. E-commerce is developing fast in the country, and there are many players with plenty of capital and a rush to acquire market share.

(June 2019)



EVGENIY SCHEPELIN AND ALEX VASSILIEV: HOW YANDEX MARKET AIMS AT MARKET LEADERSHIP

Formed as a joint-venture by Yandex and Sberbank in 2018, the Yandex Market group of companies (further referred to as “the JV”) comprises three entities: the Yandex.Market price comparison platform; Beru, a domestic marketplace; and Bringly, a cross-border marketplace. The marketplaces provide logistics solutions, delivery services and customer support.

In this exchange, two top executives of the joint venture, **Business Development Director Evgeniy Schepelin** and **Chief International Officer Alex Vassiliev**, spoke about the JV’s strategic goals¹ and practical steps, the competitive context and the value it offers to international e-merchants.

The stated goal of Yandex Market JV is to generate 500 billion rubles (around \$7.7 billion at the current exchange rate) in gross merchandise volume (GMV) by 2022. Is this realistic?

Evgeniy Schepelin – This goal is ambitious, but not unrealistic. Judging by the recent Morgan Stanley forecast, the Russian e-commerce market is expected to be worth around \$42 billion by that time, so why wouldn’t a market leader – perhaps even the leader – generate one sixth of this amount?

The objective also looks realistic if we look at AliExpress’ current GMV – 330 billion rubles – and keep in mind that the market is set to double by 2022.

This being said, the forecast might possibly change. Market conditions can alter significantly in the next few years, influenced by factors such as the population’s revenues, evolutions in offline retail, new initiatives from other players, etc.

1. In terms of market leadership, the JV pursues three goals: Beru to become the leading marketplace in Russia; Bringly to become a leading cross-border marketplace; and Yandex.Market to maintain its leadership among price comparison websites (see interview with Board chairman Gabriel Naouri)



EVGENIY SCHEPELIN AND ALEX VASSILIEV: HOW YANDEX MARKET AIMS AT MARKET LEADERSHIP

Why launch three distinct platforms? What is the strategy in terms of positioning?

E.S. – Since Yandex launched the Yandex.Market price comparison engine in 2000, many different business models have been tested. By doing so, we understood that too many experiments or too much complexity may perturbate user experience, so we decided to support three separate platforms for three distinct user goals and experiences.

Yandex.Market as a price comparison engine is maintained for its great content, which gives an opportunity to browse, compare and choose. A rumor says that Beru is cannibalizing Yandex.Market, but this is not true.

Do you think Bringly could challenge AliExpress for market leadership?

Alex Vassiliev – We believe we can compete and perhaps even beat the China-to-Russia platforms. We are building a truly global platform, including both cheap goods from China and alternative supplies, particularly from Turkey and Western countries. We compete with the Chinese platforms on the one hand, and with such websites as Lamoda and Wildberries on the other. But our competitors tend to focus on relatively narrow geographies.

Another distinctive advantage is Bringly's M2M (marketplace-to-marketplace) model, as exemplified by our partnership with Turkish Hepsiburada. By onboarding large marketplaces and charging them commission per order, we immediately offer a super wide assortment to our customers.

Also, we're developing an M2C (manufacturer-to-consumer) model. For instance, by working directly with Xiaomi Bringly eliminates all unnecessary intermediaries and connect the manufacturer directly with the consumer on its platform. Therefore, we help to reduce the price and guarantee good quality, which are the most important factors for customers. Neither AliExpress nor other marketplaces do this.

Last but not least, unlike the competing marketplaces, the JV is building its own in-house logistics infrastructure to serve the needs of Beru and Bringly. This is an important factor for success. A well-known US cross-border marketplace failed in Russia partly due to the absence of such infrastructure.

How are the various Yandex services (search marketing, taxi, food delivery...) articulated with the marketplace initiatives?

E.S. – Even though the JV became a separate legal entity in April 2018, it still is a part of the Sberbank and Yandex ecosystems and aims to make use of its various services. For example, we closely work with Yandex' search and advertising services, which provide most accurate targeting, massive reach and analytics tools. We also partner with Yandex.Taxi, which merged with Uber in 2017, Kinopoisk (movie search), Yandex.Zen (personal content feed) and are planning to partner with even more independent business units to reach different audiences.

Moreover, Bringly and Beru place campaigns and promos in Sberbank's mobile application 'Sberbank Online' which has more than 30 million active users. We also partner with Sberbank's dedicated project for youth, called 'Sberkot' (Sbercat), to appeal to young people.

What is the role of Sberbank? Why did Yandex feel such an alliance would be necessary/beneficial?

E.S. – Needless to remind the importance of Sberbank's investment in financial resources – as much as 30 billion rubles.² However, the biggest value of the deal lies in the opportunity to take advantage of the synergies between the leading IT company and the largest financial institution not only Russia but the whole region.

². Roughly half a billion US dollars, more than any e-commerce single deal in Russia so far – editor's note



EVGENIY SCHEPELIN AND ALEX VASSILIEV: HOW YANDEX MARKET AIMS AT MARKET LEADERSHIP

Can Beru and Bringly be considered as full-fledged marketplaces? Which kinds of in-house logistics and delivery services has the group made available, or could make available in the future, for e-commerce operations?

E.S. – We have our own warehouses (in Riga, Rostov and Moscow), call centers, software infrastructure and carrier aggregation system Yandex.Delivery. Even though some services are outsourced, we manage them directly to keep control of the whole system. And we invest considerable amounts in it. Less than a month ago we launched our own lockers network ‘BoxBot.’

Do you plan to launch other e-commerce initiatives?

E.S. – Yes, we are looking at many options. We are launching an offline price comparison engine called ‘SuperCheck’ (<https://bit.ly/2wUVBoO>). We’re also thinking about an advanced analytical platform for market data, and new facilities for operational activities.

We don’t have short-term plans to launch or buy a vertical e-commerce site. We have enough commitments and plans with what we’ve launched already.

In January 2019 the authorities lowered the threshold for tax-free purchases on foreign sites – from €1000 to €500 per person and per month. Did it have an impact on cross-border flows?

A.V. – Practically not. There may be an impact when the threshold will be at €200 – but perhaps not that significant, because we’ll be talking about €200 per package, not per month; and the tax will be lowered to 15% instead of 30% (see Part II, Section 5).

Currently the cross-border market is dominated by Chinese players -- first and foremost, by Aliexpress. What are the chances for Western players trying to sell to Russians?

A.V. – The Chinese will lose a part of their domination. In the low-price segment, Chinese products are becoming more expensive. Turkish ones, on the contrary, are now becoming better and cheaper! The Western players, mostly in other price segments, also have their chance: there was a setback in 2014-17 due to the ruble’s fall and the political or ‘psychological’ context. However, many Western players have learned to work with Russia under the new conditions.

By offering an easy and risk-free solution, Bringly will make the Russian market accessible to an even wider range of players. So far, only few international brands and platforms were using our price comparison platform Yandex.Market (e.g. Asos, Farfetch etc) as only these brands / online retailers had their own logistics solution to Russia. By developing our logistics network, we will open an access to Russia to hundreds of other retailers that didn’t have it before.

(June 2019)



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REHAU

JTI



IN THE NEWS

- **9 August 2017:** Yandex and Sberbank agree \$500 million JV plan to create “leading e-commerce ecosystem” in Russia
- **6 June 2019:** Alibaba, Mail.ru Group, MegaFon and RDIF commit to invest nearly \$400 million in Russian social commerce joint venture
- **6 May 2019:** Baring Vostok and Sistema provide \$150 million convertible loan to Ozon
- **19 November 2018:** S8 Capital acquires Price.ru, Rambler & Co seeks new focus
- **2 April 2019:** Food delivery startup attracts \$7.6 million from Mail.ru Group and top businessmen
- **22 November 2018:** German Westwing sells Russian e-commerce business to Elbrus Capital
- **15 September 2018:** Mitsubishi Corp. and Mail.ru Group invest in car selling site Autospot

AS PUBLISHED IN



**East-West
Digital News**

YANDEX AND SBERBANK AGREE \$500 MILLION JV PLAN TO CREATE “LEADING E-COMMERCE ECOSYSTEM” IN RUSSIA



East-West Digital News, 9 August 2017

Yandex, the NASDAQ-listed Russian search giant, and Sberbank, Russia’s state-owned national savings bank, announced today their plans to join forces and create “a leading e-commerce ecosystem” based on the Yandex.Market e-commerce marketplace. The deal, if confirmed, would mark the biggest e-commerce investment in Russia’s history.

According to a non-binding term sheet — which will ultimately be subject to regulatory approval in Russia —, Sberbank would invest 30 billion rubles (approximately \$500 million at the current exchange rate) in the joint venture. The investment would value Yandex.Market at 60 billion rubles (\$1 billion) post money. The two partners would own equal stakes in the JV, with up to 10% of the shares allocated to a stock option plan for Yandex.Market’s management and employees.

FIERCE COMPETITION

Currently, the platform attracts more than 19 million desktop and laptop users each month (source: TNS Global), giving them access to over 20,000 domestic and international merchants and 150 million product offerings. Yandex.market used to dominate the Russian e-commerce marketplace realm but now struggles with two very strong competitors.

Not only is Alibaba’s B2C subsidiary AliExpress by far number one in the Russian cross-border e-commerce flows, but it has opened its marketplace to local sellers too, and its traffic (23 million monthly visits according to SimilarWeb) matches that of Yandex.Market.

Another competitor is Avito.ru, the country’s first classifieds site, which allows businesses to operate on its site, and attracts more than 21 million desktop and laptop users every month (source: TNS Global). The company’s total revenue reached \$192.5 million in 2016, up 75% y-o-y. In October 2015 Naspers announced a \$1.2 billion transaction to become the largest shareholder in Avito.ru. The deal valued the classifieds site at some \$2.7 billion.

LATEST EVOLUTIONS

In this context, Yandex.Market has evolved significantly over the past few years. Inspired by the Amazon model, it has significantly increased its control of fulfilment and delivery processes. Thus two years ago the platform launched the Yandex.Delivery service, aggregating offers from several e-commerce shipment service providers.

Now Yandex.Market intends to go even further: “We will build [our own] logistics and delivery system to aggregate goods in warehouses and offer the best delivery price conditions to our customers,” said Maxim Grishakov, the CEO of Yandex.Market, in a recent media interview (<https://bit.ly/2L9hFEB>).

The marketplace intends to use Sberbank’s funding to improve these logistics capabilities as well as to implement a checkout function on the site at a large scale, and “enhance its value proposition to domestic and international merchants.”

In addition, Yandex.Market would like to leverage Sberbank’s banking and payments infrastructure to “develop simple and secure payment solutions on the Yandex.Market platform and introduce new features, such as consumer lending,” Grishakov stated this morning.

YANDEX AND SBERBANK AGREE \$500 MILLION JV PLAN TO CREATE “LEADING E-COMMERCE ECOSYSTEM” IN RUSSIA



GOOD OLD PARTNERS

This is not the first partnership between Yandex and Sberbank. Back in 2009 the state-owned bank acquired a golden share in Yandex – a privileged stake that gives significant control over the Yandex shareholder structure.

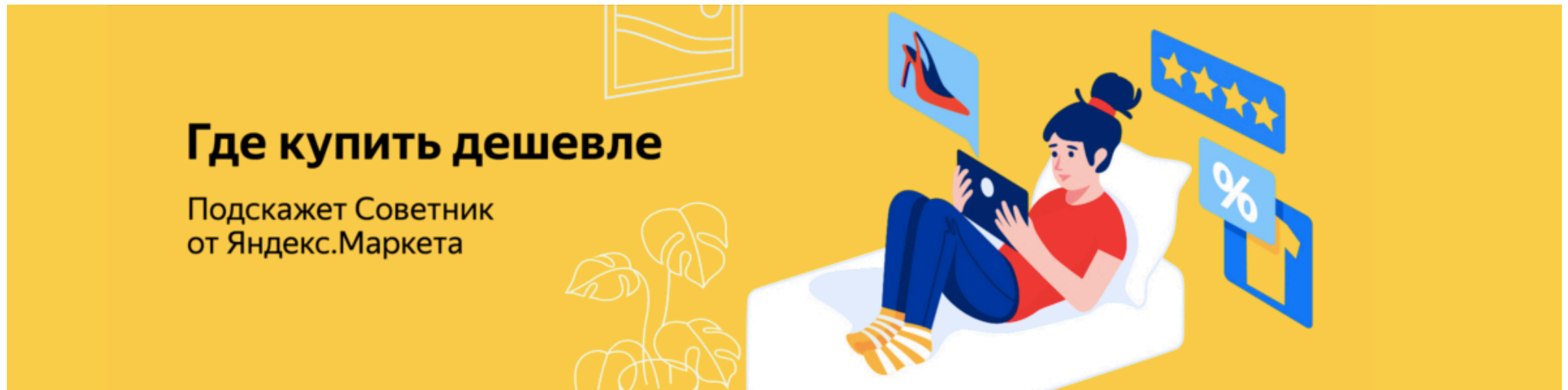
In 2013 Sberbank acquired a 75% interest in Yandex.Money, the e-wallet and payment service developed by Yandex.

In 2013 Sberbank acquired a 75% interest in Yandex.Money, the e-wallet and payment service developed by Yandex. Sberbank has been considering several options to get more involvement in Russian e-commerce. In late 2016, the bank was already reported to be working on a project to launch a national e-commerce ecosystem (<https://bit.ly/2LaHd4r>).

In addition to using its own resources, the state-owned bank considered gathering a variety of organizations around a common technological platform to build a comprehensive B2C and B2B offer. The plan was inspired by the ecosystems which Google, Amazon and Facebook as well as Tencent and Alibaba have set up in their respective countries.

Sberbank initially considered an alliance with Alibaba, or Mail.ru Group, or an even exclusively in-house development strategy. Today’s announcement of a JV with Yandex, if confirmed, could help the bank realize its e-commerce ambitions.

This story was republished or adapted by EWDN syndication partners VentureBeat, Internet Retailer (Digital Commerce 360), and Russian Search Marketing.



ALIBABA, MAIL.RU GROUP, MEGAFON AND RDIF COMMIT TO INVEST NEARLY \$400 MILLION IN RUSSIAN SOCIAL COMMERCE JOINT VENTURE



East-West Digital News, 6 June 2019

Yesterday Alibaba, Mail.ru Group, Russian telco MegaFon and sovereign fund Russian Direct Investment Fund (RDIF) announced they received approval from Russia's antimonopoly authorities for their "social commerce joint venture."

The JV will leverage on the existing businesses of AliExpress Russia, the B2C marketplace owned by Alibaba which controls a large part of the e-commerce flows between China and Russia. The partners will pour their "capital, strategic assets, leadership, resources and expertise" in the JV.

Keeping the name of 'AliExpress Russia,' the JV will "operate across all e-commerce segments, including cross-border and local marketplaces and first-party retail," as announced in September 2018 (<https://bit.ly/2lztqkJ>). This will "create an unmatched value proposition for merchants, consumers and Internet users" across Russia and some other post-Soviet republics.

The JV will aim to leverage Mail.ru Group's leading positions in Russia's social media (via the group's properties VK and OK, whose audience far exceed that of Facebook in Russia), as well as online gaming (100 million registered users worldwide), email services (100 million user accounts) and online communications.

VK will be a key component of this ecosystem. In February 2019, just a couple of months after their partnership was announced, VK and AliExpress announced the start of a social e-commerce project in Russia. A source from VK told East-West Digital News that Integration will begin over the next few months as the first version of AliExpress app will be launched on the VK Apps platform. Such apps launch instantly on VK with no install required.

LEADERSHIP AMBITIONS

"[Through] this partnership, we will offer customers richer social experience and provide entrepreneurs with a platform for growth. This is a major milestone for the Russian e-commerce market, and we believe it will promote the development of the digital economy," stated Boris Dobrodeev, CEO of Mail.ru Group.

"AliExpress Russia JV will become an undisputed leader in Russian e-commerce and create an unparalleled social commerce offering for our users," he added.

The shareholders' contributions to the AliExpress Russia JV have been announced as follows:

- Alibaba Group will invest \$100 million and contribute AliExpress Russia into the joint venture;
- MegaFon will sell its 9.97% economic stake in Mail.ru Group (<https://bit.ly/2kKEQYm>) to Alibaba Group in exchange for a 24.3% stake in the AliExpress Russia JV with 30.2% voting rights;
- Mail.ru Group will contribute its Pandao e-commerce business as well as cash investments of \$182 million in exchange for a 15% stake in the AliExpress Russia JV with 18.7% voting rights;
- The RDIF will invest \$100 million in the JV and may further acquire additional shares of the JV from Alibaba Group for \$194 million. Should it exercise this option, the sovereign fund will own economic and voting stakes in the joint venture of 12.9% and 9.6%, respectively.

ALIBABA, MAIL.RU GROUP, MEGAFON AND RDIF COMMIT TO INVEST NEARLY \$400 MILLION IN RUSSIAN SOCIAL COMMERCE JOINT VENTURE



ECONOMIC AND VOTING INTERESTS OF ALIEXPRESS RUSSIA JV SHAREHOLDERS

JV participant	At closing		With RDIF call option exercised	
	Economic rights	Voting rights	Economic rights	Voting rights
Alibaba Group	55.7%	49.9%	47.8%	47.6%
MegaFon	24.3%	30.2%	24.3%	26.4%
Mail.ru Group	15.0%	18.7%	15.0%	16.3%
RDIF	5.0%	1.2%	12.9%	9.6%
Total	100%	100%	100%	100%

SOURCE: MAIL.RU GROUP

ACCELERATED E-COMMERCE DEVELOPMENT

Russian e-commerce is entering a promising development cycle: although the size of this market reached just around \$23 billion last year (taking into account only orders of physical goods), including some \$5 billion for cross-border sales, growth in this sector is accelerating.

In October last year Morgan Stanley predicted that market size could exceed \$50 billion by 2023 (<https://bit.ly/2LC8mPu>). But Data Insight analyst Boris Ovchinnikov believes online retailers could do even better.

“Over the past year or two, the performance of many players, including both large and medium-sized sites, has been so impressive that forecasts may have to be revised upwards,” he told East-West Digital News.

The AliExpress Russia JV partners are not the only major players to invest in the sector. Sberbank, the state-controlled financial giant, has put half a billion US dollars in an e-commerce joint venture with Yandex (<https://bit.ly/2vUu7PY>), while Ozon, one of the most established industry players, has just raised \$150 million (<https://bit.ly/2Xkc5m7>) from its existing shareholders.

Meanwhile, Global Fashion Group, the international entity which controls Russian fashion platform Lamoda, has just announced plans (<https://tcrn.ch/2JT1k7p>) to raise €300 million in a Frankfurt IPO.

BARING VOSTOK AND SISTEMA PROVIDE \$150 MILLION CONVERTIBLE LOAN TO OZON

OZON

East-West Digital News, 6 May 2019

Baring Vostok, a major Moscow-based international PE firm, and Sistema, a large Russian conglomerate, have provided a 10 billion ruble (roughly \$150 million) convertible loan to online retailer Ozon.

The funds will help the company “maintain its current growth rate and to develop its warehouse infrastructure, IT-platform, marketplace and financial services offerings,” according to a Baring Vostok statement.

Ozon also needs financial means to “aggressively grow its market share.” The company is number one among multi-category online retailers in Russia, but only number four in Data Insight’s general e-commerce ranking (see Section 3.2). It has to measure itself against Wildberries, the current e-commerce leader, which is switching from its initial focus on fashion items to a more diversified assortment.

Other strong contenders for market leadership are LSE-listed Mail.ru Group, which has made an alliance with Alibaba, and Yandex Market, which is backed by Sberbank.

With big capital injections in 2011 (<https://bit.ly/2MNMxlp>), 2014 (<https://bit.ly/2L9h71v>) and 2018 (<https://bit.ly/2tqmQbY>), Ozon is one of the most well-funded Russian e-commerce companies. The company’s valuation in the 2018 round amounted to \$814.2 million, according to media reports.

Baring Vostok and Sistema are Ozon’s largest shareholders. They provided 4.3 billion rubles and 5.7 billion rubles, respectively, of the agreed convertible loan.



S8 CAPITAL ACQUIRES PRICE.RU, RAMBLER & CO SEEKS NEW FOCUS



East-West Digital News, 19 November 2018

S8 Capital, a diversified Russian holding, is to acquire Price.ru, a property of Rambler & Co. In an exchange with East-West Digital News, S8 Capital confirmed that it will fully acquire Price.ru in a transaction that will be completed next year.

The amount of the deal has not been disclosed, but business daily Kommersant cited (<https://bit.ly/2SkKIFH>) “a source close to one of the parties” who estimated it at “nearly \$12 million.”

Founded by Russian lottery magnate Armen Sarkisyan, S8 Capital focuses on “creating and developing high-tech solutions and services.” It claims to manage “more than 100 projects” in the retail, financial and telecom industries, as well as in e-commerce and digital media.

“Our companies have gained unique industry-specific competences,” which have made S8 Capital “a truly multi-profile holding,” a representative of S8 Capital told EWDN.

“Our strategic goal is to create an ecosystem or digital platform that will combine a set of solutions and services to meet or exceed customers’ needs and expectations,” said the representative.

Thus, “the acquisition of Price.ru, the navigator for bargains in the Russian-language Internet, is a strategic move: It will help us generate a large-scale synergetic effect with other businesses.

“Earlier this year, S8 Capital launched Sport24.ru, an online media outlet which quickly became one of the most quoted sources among sports media in Russia (<https://bit.ly/2ZiUICQ>). Among S8 Capital’s other properties, as noted by Kommersant, are online bookmaker 888.ru, car leasing service Next.Car, and Strakhovka.ru, an aggregator of insurance offers.

S8 Capital aims to have all its services complement each other, said the company representative: “The competencies and data from one business helping develop and improve other ones with customers provided with guaranteed security and high-quality service.”

OLD RESOURCE, MODEST VALUATIONS

Launched in 1997 by IT entrepreneur Arkady Moreinis, Price.ru is one of the oldest e-commerce resources on the Russian Internet scene. As reported by Kommersant, Rambler bought a majority stake in the company in 2006, and fully acquired the site two years later.

The amount of the deal was comprised between \$5 million and \$10 million, Moreinis said in a previous media interview.

Rambler & Co now concentrates more on media and entertainment, said Rafael Abramyan, a member of the group’s managing committee, in an exchange with Kommersant, to explain the sale of Price.ru.

This new focus has been illustrated, over the past years, by the acquisition of online video site Okko as well as theater networks Cinema Park and Formula Kino.

However, Rambler & Co still owns a variety of other online resources, including web portal Rambler.ru, several online news and content services, and an online travel service.

Just weeks ago, the group joined forces with Sberbank and UCS (<https://bit.ly/31AFBXs>) to create a multifunction food service platform.

FOOD DELIVERY STARTUP ATTRACTS \$7.6 MILLION FROM MAIL.RU GROUP AND TOP BUSINESSMEN



East-West Digital News, 2 April 2019

Instamart, a Moscow-based startup that organizes food deliveries from offline retail outlets, raised 500 million rubles (approximately \$7.6 million at the current exchange rate).

As reported by VC.RU, the deal, which took place last month, valued the company at 1.8 billion rubles (around \$27.5 million). The money was brought in by Mail.ru Group, Sberbank top executive Lev Khasis and Transcontinental Media Company President Alexander Mitroshenkov.

Mail.ru Group and Khasis had already invested in the company in December (<https://bit.ly/2MFmMPv>) 2016 and February 2018 (<https://bit.ly/2F2KHSK>), respectively.

The other previous investors in Instamart are Ilya Yakubson, a figure of the Russian grocery retail industry; Albert Sagiryan, a former Sberbank top executive; Sergey Solonin, one of Qiwi's co-founders; and Gazprom Media Partners, an investment vehicle created by Gazprom Media.

Business daily Vedomosti reports that Mail.ru Group, following its investments in 2016 and 2019, now owns "less than 20%" of the company.

"Investing in foodtech companies is part of our strategy" said Alexey Milevskiy, director of Mail.ru Group's M&A department in an exchange with VC.RU, underlining the "important synergy potential" of such companies with the group's other services.

SERVING 50,000 FRESH FOOD AFICIONADOS ACROSS RUSSIA

Inspired by the success of Californian unicorn Instacart, the Russian startup launched in 2013. Instamart now serves Moscow customers through partnerships with Auchan, Lenta, Metro Cash & Carry and VkusVill.

The company claims "more than 50,000 active users" in Moscow, Saint Petersburg, Ekaterinburg, Kazan and Nizhny Novgorod. The service is to be launched in such other cities as Rostov-upon-Don, Ufa and Krasnodar.

Instamart says it generated 1 billion rubles (\$16 million) in turnover or 200 million rubles (\$3.2 million) in revenues last year. Its average order value amounts to 5,000 rubles (around \$15) with nearly 25,000 orders processed per month.



GERMAN WESTWING SELLS RUSSIAN E-COMMERCE BUSINESS TO ELBRUS CAPITAL



East-West Digital News, 22 November 2018

Westwing, a German e-commerce company selling furniture and designer home accessories, has sold to one of the funds of Elbrus Capital its subsidiary covering Russia and Kazakhstan. This full acquisition was closed in mid November, Elbrus Capital Senior Partner Dmitry Kryukov told Russian business daily Kommersant (<https://bit.ly/2MGG5YG>).

The amount of the transaction has not been disclosed, but in an exchange with Kommersant, market analyst Mikhail Burmistrov assumed it might have equalled at least the subsidiary's annual turnover, or 1-1.2 billion rubles (\$15-18 million at the current exchange rate).

Westwing launched operations in Russia in 2011, Kommersant notes. The online store has several thousands of suppliers from Russia and abroad, and claims no less than 5 million club members in Russia and Kazakhstan. Last year, its sales revenues reached around 1 billion rubles (around \$16.5 million at the average exchange rate), according to official accounts, and could amount to 800 million rubles (around \$13 million) this year, according to company forecasts cited by Kommersant.

Westwing's exit from Russia and Kazakhstan, as well as from Brazil, has been presented as "a strategic decision to focus on its main business in Europe." (<https://bit.ly/2WwfXzd>)

The move, however, may seem paradoxical as the company, backed by Rocket Internet, just raised €114 million euros in its Frankfurt IPO (<https://reut.rs/2ZpIIQ9>).

While the Russian e-commerce market is expected to almost triple in volume in the next five years (see Section 1), local market experts consider the furniture segment as particularly promising. E-commerce penetration in this segment is around 4% vs. around 10% in more advanced markets, Kryukov told Kommersant.

Elbrus Capital intends to invest further in the company to help it reach its potential, Kryukov added.

MASSIVE INVESTMENTS FROM RUSSIAN AND CHINESE PLAYERS

Westwing is not the only German retail company having fully or partially stopped operations in Russia, as reported (<https://bit.ly/2WwfXzd>) last month by East-West Digital News.

In the course of this year Otto Group, the German e-commerce giant, announced the shutdown of its Russian online stores Otto.ru and Quelle.ru; Adidas significantly reduced the number of its trademark shops in Russia and neighboring countries; Ceconomy sold all of its Russian Media Markt stores; and ECE Projektmanagement, the European leader in shopping mall management companies, left Russia.

Among the reasons for the decreased appeal of the Russian market in the eyes of German retailers are the ruble's depreciation since 2014-15 and growing local competition.

Also leaving the Russian market (as well as Spain and Portugal) is Castorama (<https://reut.rs/2UF0FbA>), whose owner Kingfisher aims to focus on markets "where we have, or can reach, a market leading position," as reported by Reuters.

While making losses with its 20 Russian stores, Castorama has a small, but fast growing e-commerce business in the country. "They used to have quite a poor service to online customers, but began improving things about a year ago. Starting from almost nothing, this online business is now growing by 150% per year," e-commerce expert Boris Ovchinnikov told East-West Digital News.

Meanwhile, major local players such as Mail.ru Group (which has made an alliance with Alibaba, Yandex (in partnership with Sberbank) and Ozon (backed by MTS and Baring Vostok), have launched massive investment plans in Russian e-commerce.

MITSUBISHI CORP. AND MAIL.RU GROUP INVEST IN CAR SELLING SITE AUTOSPOT



East-West Digital News, 15 September 2018

Mitsubishi Corp. and Mail.ru Group have invested \$4.1 million in car selling site Autospot, in exchange for a 21% stake in the company – setting the company's post-money valuation at \$19.1 million.

The news was reported by the business daily Vedomosti (<https://bit.ly/2xavfPm>) based on exchanges with Autospot's General Manager Dmitry Andreev.

Autospot allows its users to buy a car with a discount from a network of authorized dealers in Russia. After launch in 2013, the startup secured several rounds of funding from such investors as Fastlane Ventures, SOL Ventures, and individual investors.

More than 30,000 cars are currently available for sale on the site, with discounts of up to 4.8 million rubles (around \$70,000).





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