

## ACRA AFFIRMS PJSC "M.VIDEO" AT A+(RU), OUTLOOK STABLE

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The credit rating of PJSC "M.Video" (hereinafter, M.Video-Eldorado Group, the Company, or the Group) is based on its strong market position, high business profile assessment, which is due to the large share of online sales and the fact that M.Video-Eldorado Group's network is made up of stores belonging to different formats and is part of the logistics infrastructure for online orders, as well as the high brand awareness of M.Video and Eldorado. In addition, ACRA notes the very strong corporate governance of M.Video-Eldorado Group, which has been carrying out a consistent and successful development strategy for a considerable period of time and has well-established corporate governance practices. On the back of new economic sanctions and falling ruble exchange rate, ACRA expects a period of rush demand for the Company's main products.

M.Video-Eldorado Group was created after its subsidiary company PJSC "M.Video" acquired the retail chains LLC "ELDORADO" and LLC "Media-Saturn-Russland" (the Russian business unit of MediaMarktSaturn) in 2018. The Group is a leading player in the Russian household appliances and electronics retail market. As of December 31, 2021, the Group owned a network of 1,258 stores in 371 cities across Russia. The main controlling person of the Company is S. M. Gutseriev.

### KEY ASSESSMENT FACTORS

**Strong market position and high business profile assessment.** The Group is currently the clear leader of the Russian household appliances and electronics retail market. Nevertheless, it is continuing to increase its sales and expand its presence across Russia. The well-developed online platform and infrastructure allow the Group to rapidly adapt to market shocks. In view of the above, ACRA expects that in 2022, the Company will overcome price and transportation shocks caused by new economic sanctions.

**Medium leverage and coverage.** In 2021, the Group carried out two exchange-traded bond issuances for a total of RUB 19 bln, aiming at refinancing the debt that was raised to finance transactions to acquire BOVESTO LIMITED (prior to the transaction, this company held certain shares in LLC ELDORADO) and LLC Media-Saturn-Russland. In 2021, the total financial debt of the Company grew from RUB 47.9 bln as of December 31, 2020 to RUB 69.1 bln as of December 31, 2021 due to the rapid expansion of the Group's retail network. According to the Agency's calculations, in 2021, the ratio of adjusted total debt to FFO before fixed charges was 5.1x, and the ratio of total debt to FFO before net interest was 3.5x (in 2020: 4.3x and 1.9x, respectively); the ratio of FFO before fixed charges to fixed charges was 1.6x, FFO before net interest to interest was 2.8x (in 2020: 1.8x and 5.3x, respectively).

**The very high level of corporate governance** is the result of implementing a successful development strategy and well-established management practices. The Company's board of directors has nine members, three of whom are independent. The chairman of the board of

directors is A. Tynkovan. The board of directors includes committees for audit, remuneration and appointments, as well as for strategy and digital transformation. The Group's management has significant experience: each of the representatives of key management on average have more than 20 years' worth of professional experience. Risk management is regulated at the Group and minimizes all key types of risk. Financial transparency is at a very high level and the structure of the business is quite simple: almost all operations are carried out via one subsidiary (LLC "MVM", ACRA rating: A+(RU), outlook Stable), which is also the balance sheet holder of the Group's property.

**High liquidity assessment and weak cash flow.** In 2021, the Company adopted a new dividend policy according to which it plans to allocate 100% of net IFRS profit for the payment of dividends. However, ARCA expects that dividends will be reduced or no dividend will be paid for 2022. According to ACRA's calculations, FCF margin for 2021–2023 is expected at around zero (ACRA calculated the Group's FCF taking into account dividend payout). As of December 31, 2021, the Group was to repay around RUB 39.8 bln in short-term loans, however, the approved and available credit lines of RUB 60.5 bln and cash accumulated in the Company's accounts mean that the Group's liquidity position is strong.

**Large size of business and high profitability.** According to ACRA's estimates, the Group's FFO before fixed charges and taxes amounted to RUB 45.6 bln in 2021 (RUB 49.6 bln in 2020), which indicates the large size of the Company as per to ACRA's methodology. The Agency expects FFO before fixed charges and taxes to grow thanks to further expansion of the Group's retail network.

Historically, the Group's FFO before fixed charges and taxes has usually been above 10%. The Agency expects the Company to maintain this level of profitability in the future, including due to its strong position in talks with suppliers.

## KEY ASSUMPTIONS

- FFO margin before fixed charges and taxes within the range of 8–10%.
- The Company implementing its capital investment program as planned.
- Continued access to external liquidity sources.

## POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

### A positive rating action may be prompted by:

- Weighted average ratio of adjusted total debt to FFO before fixed charges falling below 4.0x along with the ratio of total debt to FFO before net interest declining below 2.0x, coupled with the weighted average ratio of FFO before fixed charges to fixed charges exceeding 2.5x;
- Weighted average FFO before fixed charges and taxes growing to RUB 100 bln, revenues reaching RUB 500 bln and the FFO before fixed charges and taxes margin growing to 15%.

### A negative rating action may be prompted by:

- Weighted average ratio of adjusted total debt to FFO before fixed charges exceeding 6.0x;
- Weighted average FFO before fixed charges to fixed charges falling below 1.5x;
- FFO before fixed payments and taxes margin falling below 8%;

- Worsened access to external sources of liquidity.

## RATING COMPONENTS

SCA: a+.

Support: none.

## ISSUE RATINGS

The following bonds guaranteed by LLC "MVM", the key operating company of the Group, are outstanding:

[Bonds of LLC "MV FINANCE", series 001P-01 \(ISIN RU000A103117\)](#); maturity date: April 18, 2024, issue volume: RUB 10 bln — A+(RU).

[Bonds of LLC "MV FINANCE", series 001P-02 \(ISIN RU000A103HT3\)](#); maturity date: August 07, 2024, issue volume: RUB 9 bln — A+(RU).

Rationale. The above bonds are senior unsecured debt instruments of LLC "MVM". According to ACRA's methodology, the bond issues are rated A+(RU), i.e. on par with the guarantor.

## REGULATORY DISCLOSURE

The credit rating has been assigned under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations under the National Scale for the Russian Federation](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating of PJSC "M.Video" was published by ACRA for the first time on March 10, 2021. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on the data provided by PJSC "M.Video", information from publicly available sources, as well as ACRA's own databases. The credit rating is solicited, and PJSC "M.Video" participated in its assignment.

In assigning the credit rating, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no ancillary services to PJSC "M.Video". No conflicts of interest were identified in the course of credit rating assignment.

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