Case study – Introduction to the Romanian food retail market

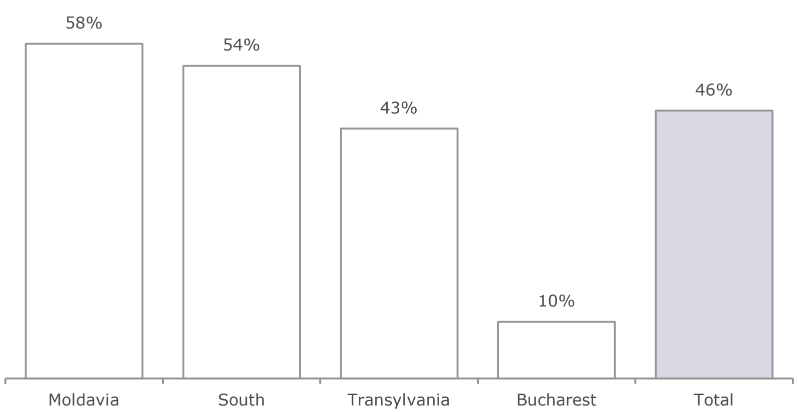
Distribution of the Romanian population

Total population in Romania amounts to 20.1 mn of inhabitants according to the last National Census. Approximately 46% of Romanians live in rural areas and c.56% live in small towns (below 20,000 inhabitants), while large cities (over 100,000 inhabitants) account for only 28% of the population

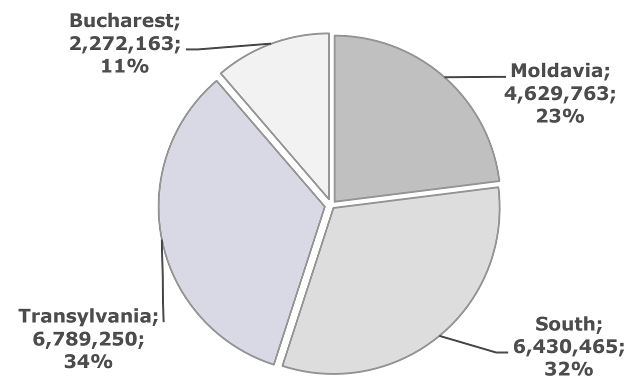
Inhabitants, number of localities and % of rural population - % by population ranges

	<5,000	5,000-10,000	10,000-20,000	20,000-50,000	50,000-100,000	>100,000	Total
# localities	2,492	479	115	55	21	20	3,182
inhabitants of localities	6,685,141	3,160,756	1,490,993	1,647,397	1,488,239	5,649,115	20,121,641
% population	33.2%	15.7%	7.4%	8.2%	7.4%	28.1%	100%
% population cum.	33.2%	48.9%	56.3%	64.5%	71.9%	100.0%	
Rural population	6,577,381	2,395,932	266,725	22,813	0	0	9,262,851
% rural	98.4%	75.8%	17.9%	1.4%	0.0%	0.0%	46%

% of rural population by regions



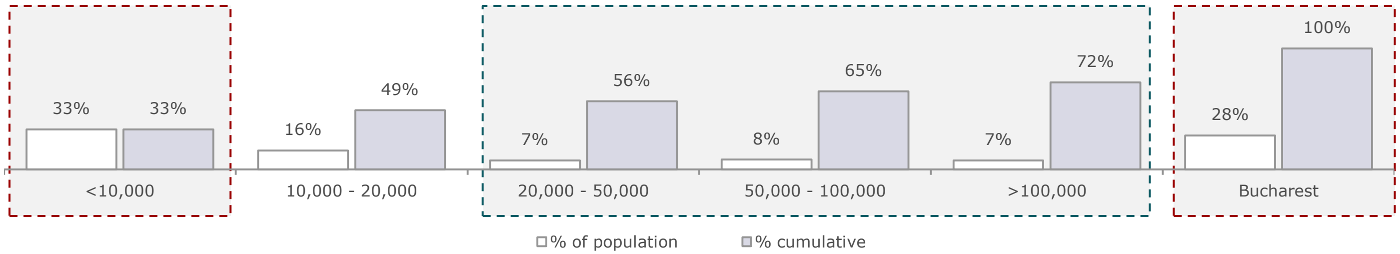
Distribution of population by regions - %



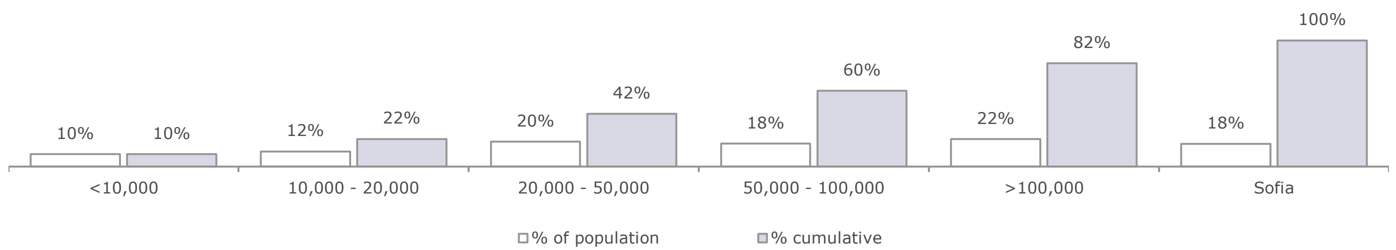
Romania – Distribution of the population - benchmark

The vast majority of the Romanian population lives either in the smallest towns of less than 10,000 inhabitants (c.33%) or in the capital of the country (c.28%), being the share of people living in the medium/large sized-cities substantially lower than in Bulgaria or Poland

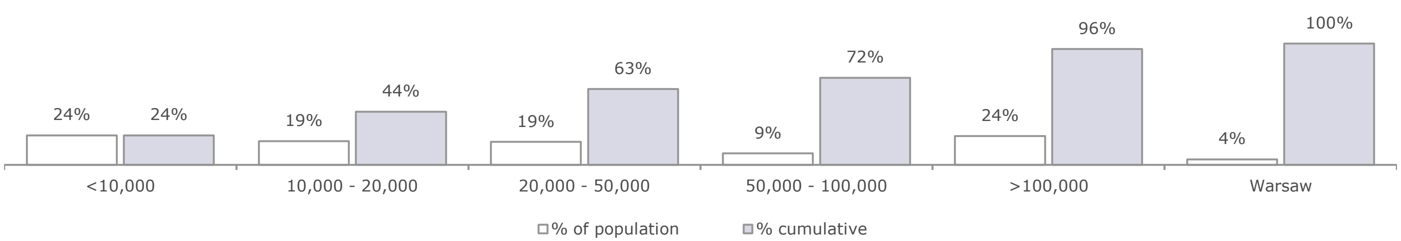
Distribution of population by ranges - % — **Romania**



Distribution of population by ranges - % — **Bulgaria**



Distribution of population by ranges - % — **Poland**

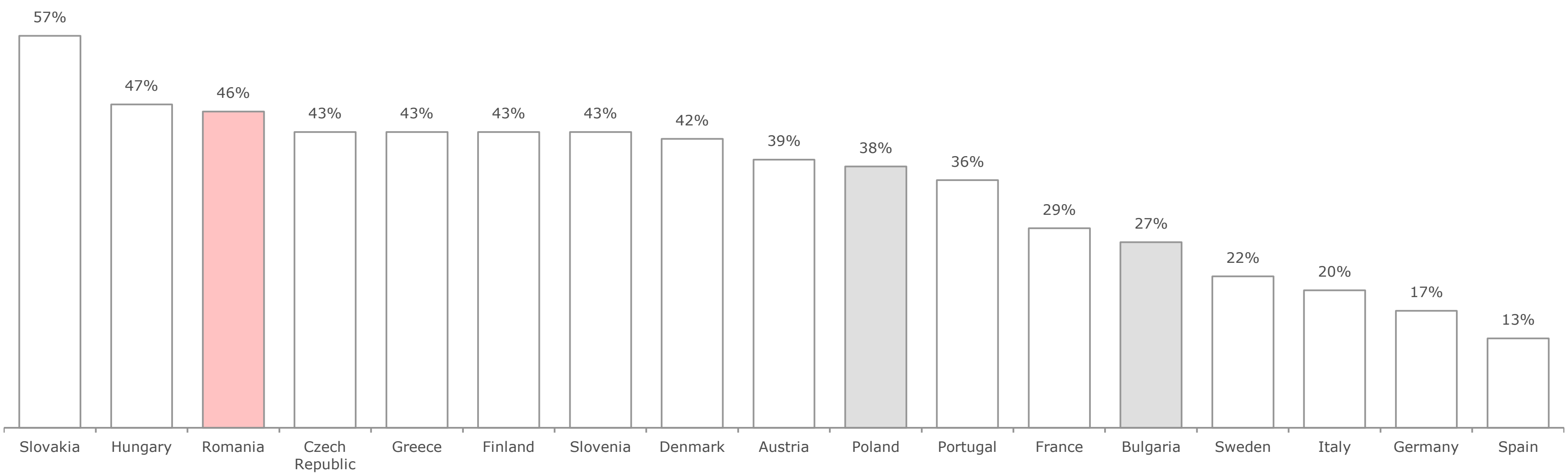


Source: National Statistics Institutes and Beragua

Rural population in Europe – benchmark

Amongst the 27 members of the EU, Romania is the third country with the highest percentage of rural population (46% of the total)

Percentage of total population living in rural areas - %

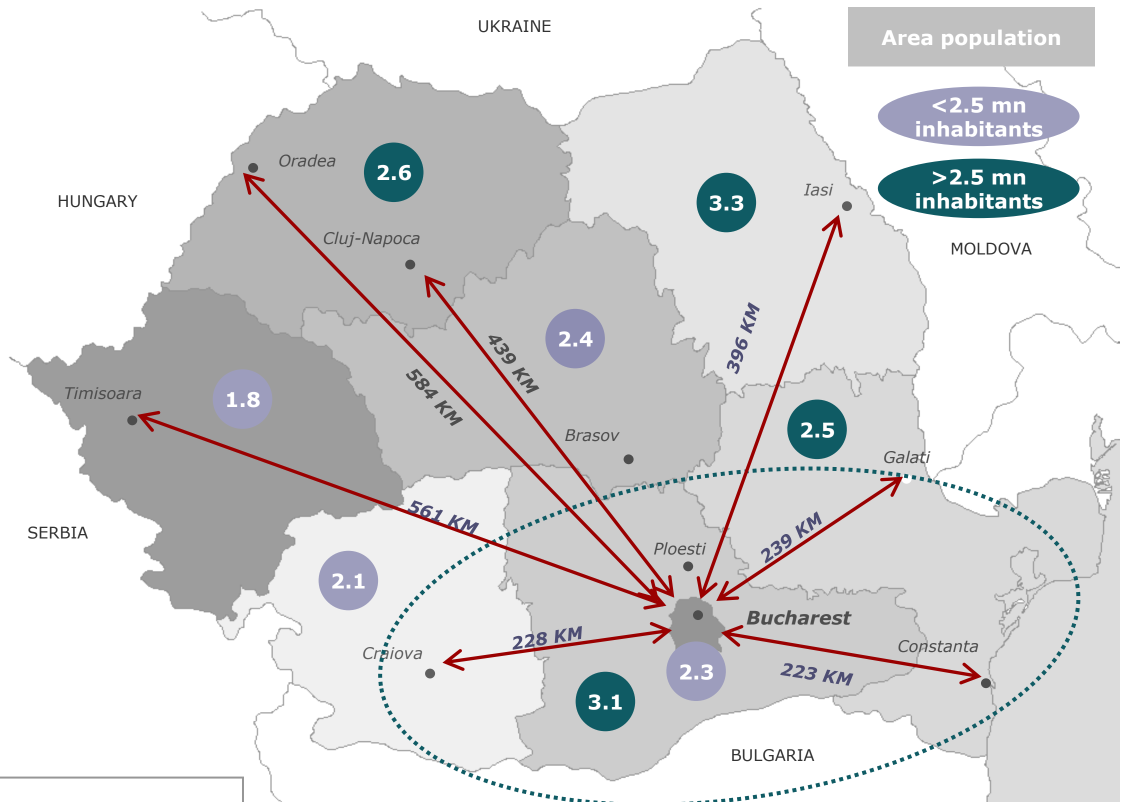


Source: Eurostat and Bulgarian National Institute of Statistics

Geography and main cities

The ten largest cities have a combined population of circa 4.3 million inhabitants (21.3% of the c.20.1 millions of the Romanian population), including Bucharest with 1.88 mn inhabitants

The biggest cities	Population	Distance, km
Bucharest	**1,883,425**	
Cluj-Napoca	324,576	439
Timișoara	319,279	561
Iași	290,422	396
Constanța	283,872	223
Craiova	269,506	228
Brașov	253,200	171
Galaţi	249,432	239
Ploiești	209,945	62
Oradea	196,367	584
Total	4,280,024	



A 'logistic' radius of 250 km from Bucharest concentrates c.8.3 million of inhabitants, this is c.41% of the total country population.

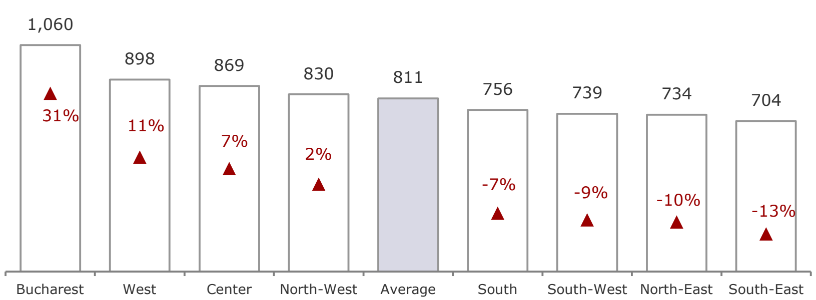
8,275,835 inhabitants (41.1% of total population).

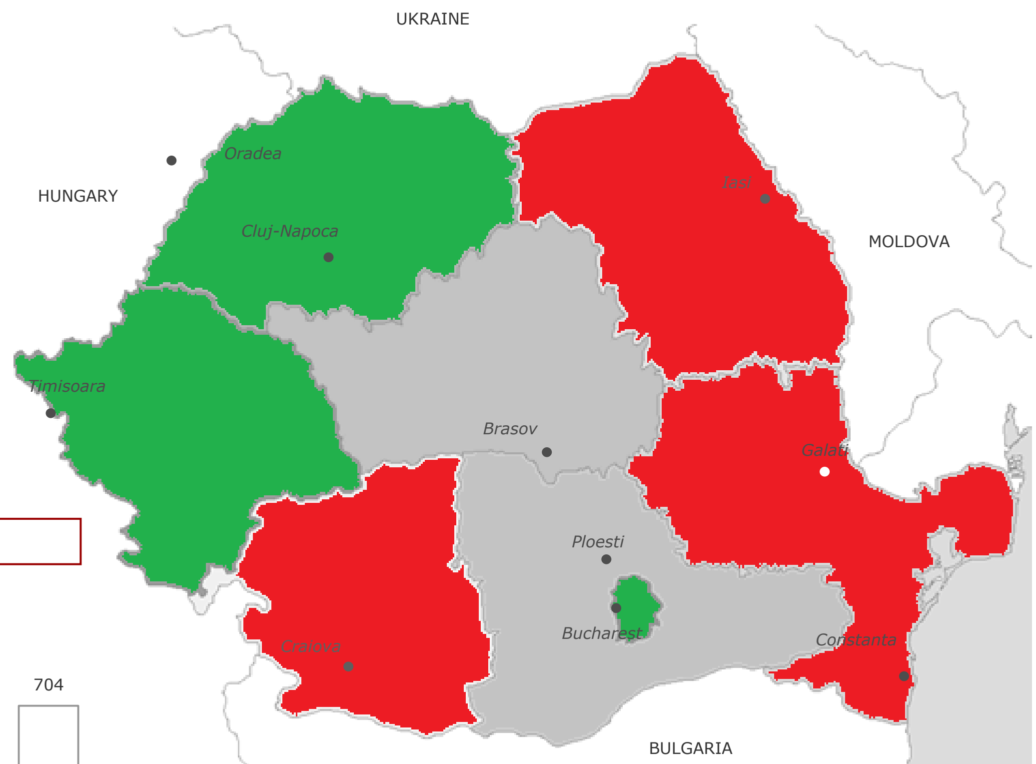
Source: *Romanian National Institute of Statistics*

Average expenditure per capita by region

- **The richest areas of Romania** (measured in terms of average per capita expenditure) **are concentrated in Bucharest, the Central and the Western regions** (which include the two second largest cities of the Country – Timisoara and Cluj-Napoca), while the **poorest areas are the Eastern regions and the area of Craiova.**
- **However, the dispersion in terms of expenditure per capita is moderate:** Bucharest household expenditure is only 31% higher than the Country average and c.44% higher than the poorest region**.**

Average monthly expenditure per capita – 2013 RON



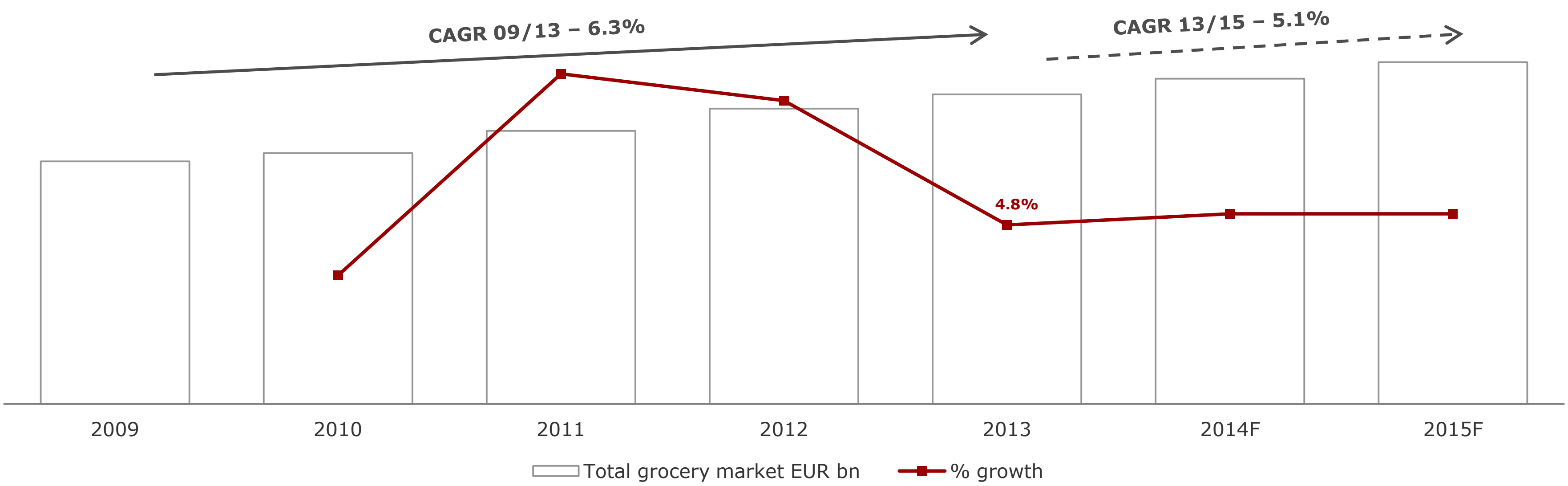


Source: Romanian National Institute of Statistics

Grocery market – evolution and prospects

Total food retail market in Romania experienced a 6.3% CAGR in the period 2009-2013 and it is forecasted to grow at 5.1% CAGR over the period 2013-2015

Evolution of Romanian grocery market – 2009–2015F – EUR bn



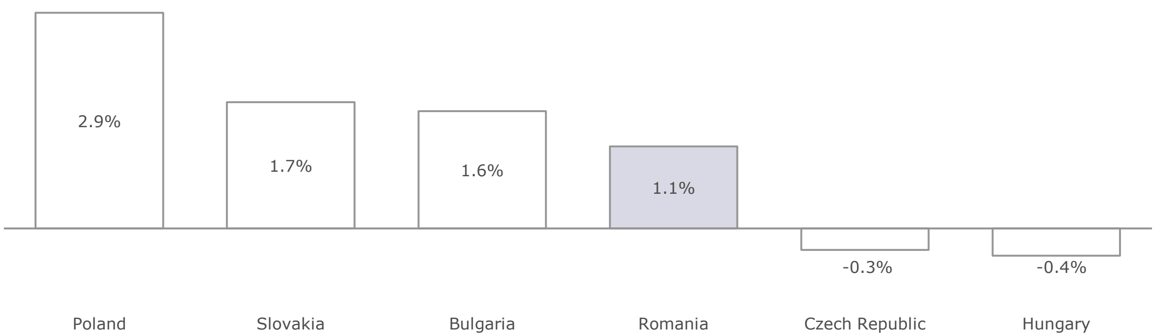
- The **total grocery market in Romania amounted showed a good resilience during the economic downturn.**
- According to **PMR**, the Romanian grocery market will **grow at a 5.1% CAGR during the 2013-2015 period**, c.2% above the estimated inflation for the same period (average of 3.2% 2013-2015).

Source: PMR and Planet Retail

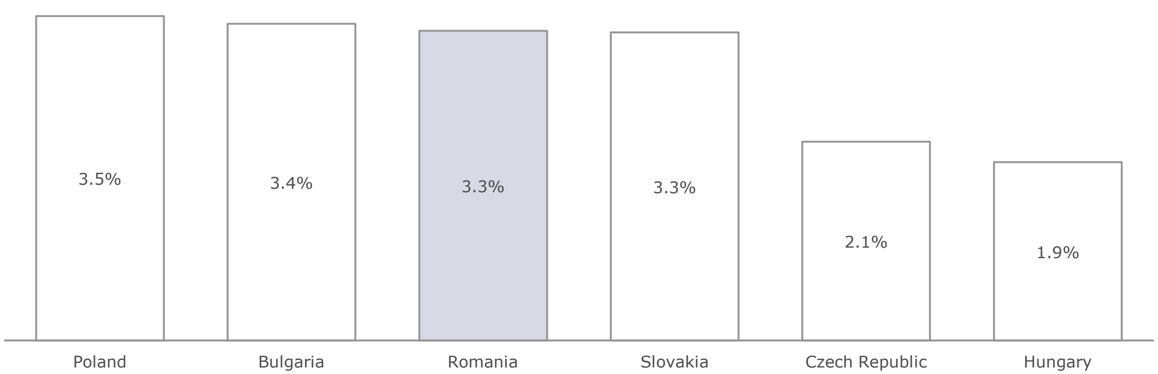
GDP per capita evolution – benchmark

With EUR6,709 Romania had the second lowest GDP per capita of all its CEE peers in 2013, only above Bulgaria, showing a 1.1% CAGR during the 2007-2013 period. Nevertheless, country's GDP per capita is forecasted to show one of the highest growths between 2014 and 2019, in line with Slovakia, Bulgaria and Poland and well above other more developed countries in the area such as Czech Republic or Hungary

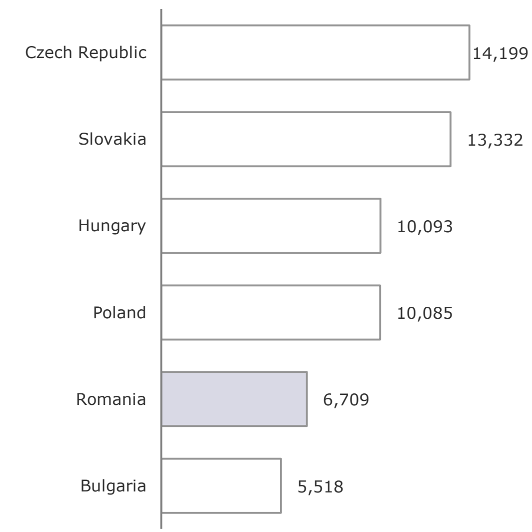
GDP per capita evolution – 2007-2013 CAGR – Constant prices – Benchmark



GDP per capita evolution – 2014F-2019F CAGR – Constant prices – Benchmark



GDP per capita – 2013 benchmark- EUR

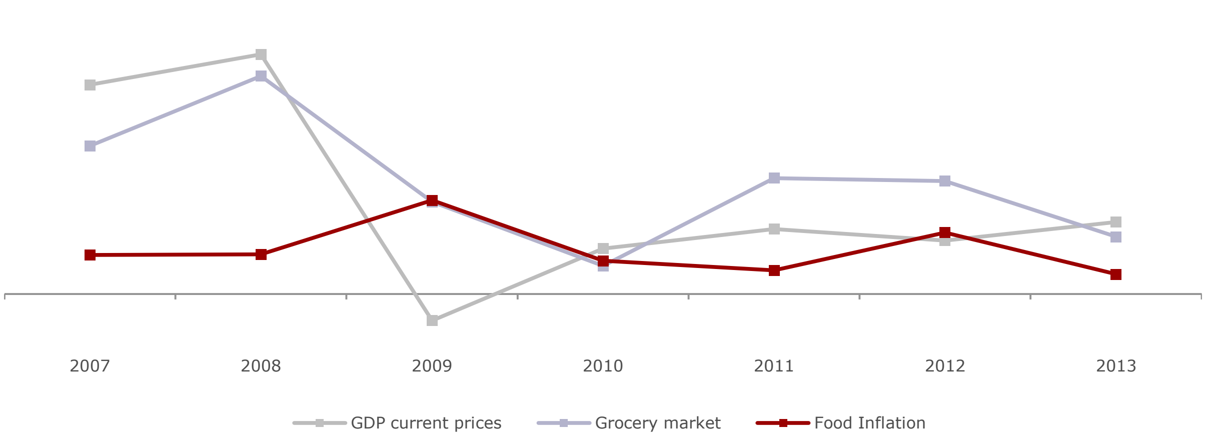


Source: IMF

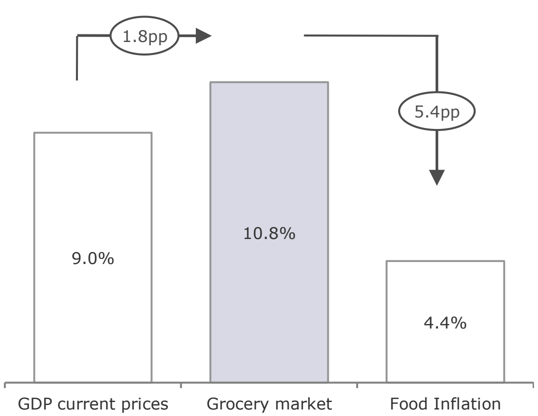
Grocery market evolution vs. Food CPI and GDP

During the 2007-13 period, the Romanian grocery market has grown at a considerably higher pace than the GDP. Furthermore, the Romanian food retail market evolution in real terms has been significantly positive during the period analyzed, growing by c.5pp above the increase of the food CPI

Romanian grocery market evolution vs. GDP and Food CPI – 2007-2013 – % of growth



Grocery market evolution vs. Food CPI and GDP – 2007-2013 CAGR

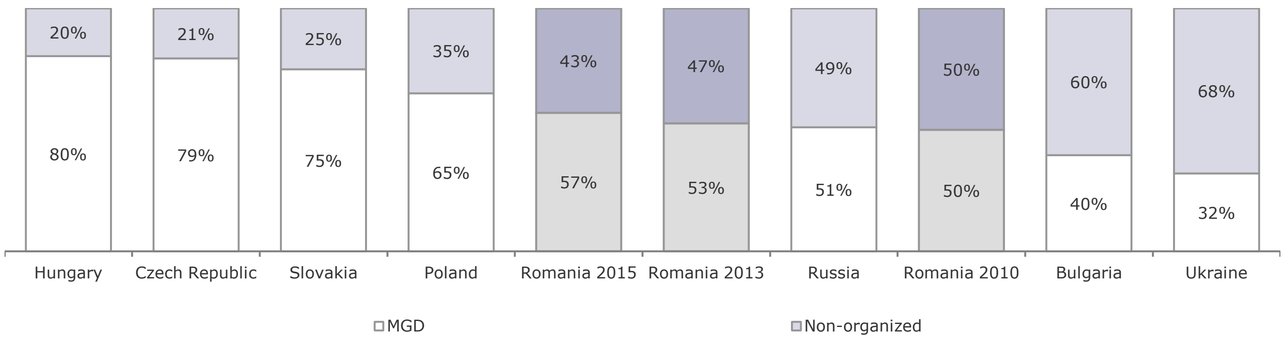


Source: PMR and Romanian National Institute of Statistics

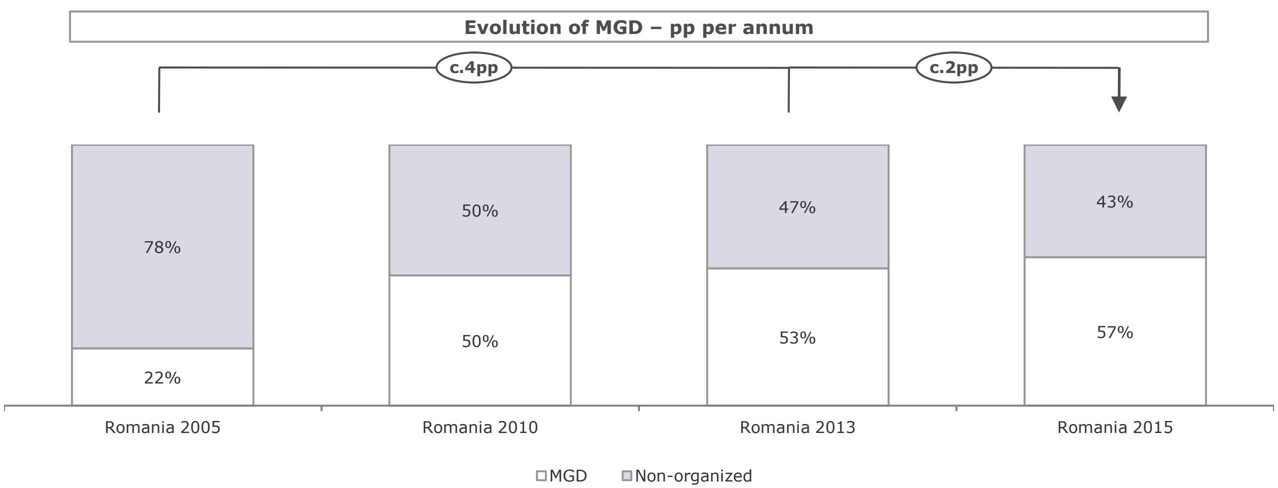
Grocery market – organized vs. non-organized

47% of the food retail market is controlled by traditional retailers, which have lost c.31pp of market share since 2005. According to PMR forecasts, the pace of traditionals will decline to 2pp per annum in the 2013-2015 period

Sales market share organized vs. non-organized – Benchmark 2013



Sales market share organized vs. non-organized – Evolution 2005-2013



Source: PMR and Beragua

Grocery market – MGD market share by retail segments

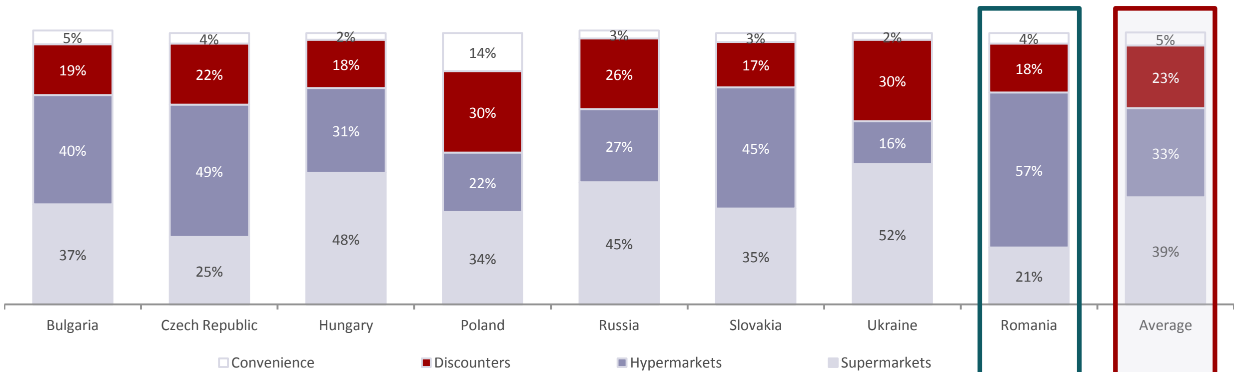
Supermarkets and discounters are the most dynamic food retail segments in the Romanian market

- **Hypermarkets are the leaders in the modern retail in Romania** (c.44% of MS).
- **Supermarkets, followed by discounters, are the most dynamic food retail segments** in the Country and have posted the highest progression in the period 2009-2013.
- On the other hand, **C&C have lost c.8 pp of MS in the last 5 years**, posting the highest MS decline of the organized segments.

Sales market share evolution by segments

	2009	2010	2011	2012	2013	Sales CAGR 09-13
C&C	30.3%	26.8%	25.0%	25.1%	**22.5%**	2.9%
Convenience Stores	2.5%	2.5%	2.3%	2.2%	**3.0%**	9.4%
Discounters	11.8%	10.4%	10.5%	10.3%	**14.0%**	15.6%
Hypermarkets	44.4%	46.6%	48.5%	49.1%	**44.3%**	10.8%
Supermarkets	10.9%	13.7%	13.7%	13.3%	**16.3%**	22.5%

Sales market share by segments – Benchmark – 2013 (*)



Compared to the average of our benchmark, **Romania presents two specificities in terms of MS by retail segments:**

- **Hypermarkets** represent **57% of the MGD sales** compared to **33% of the average.**
- Substantial **lower share of supermarkets compared to our benchmark (21% vs. 39%).**

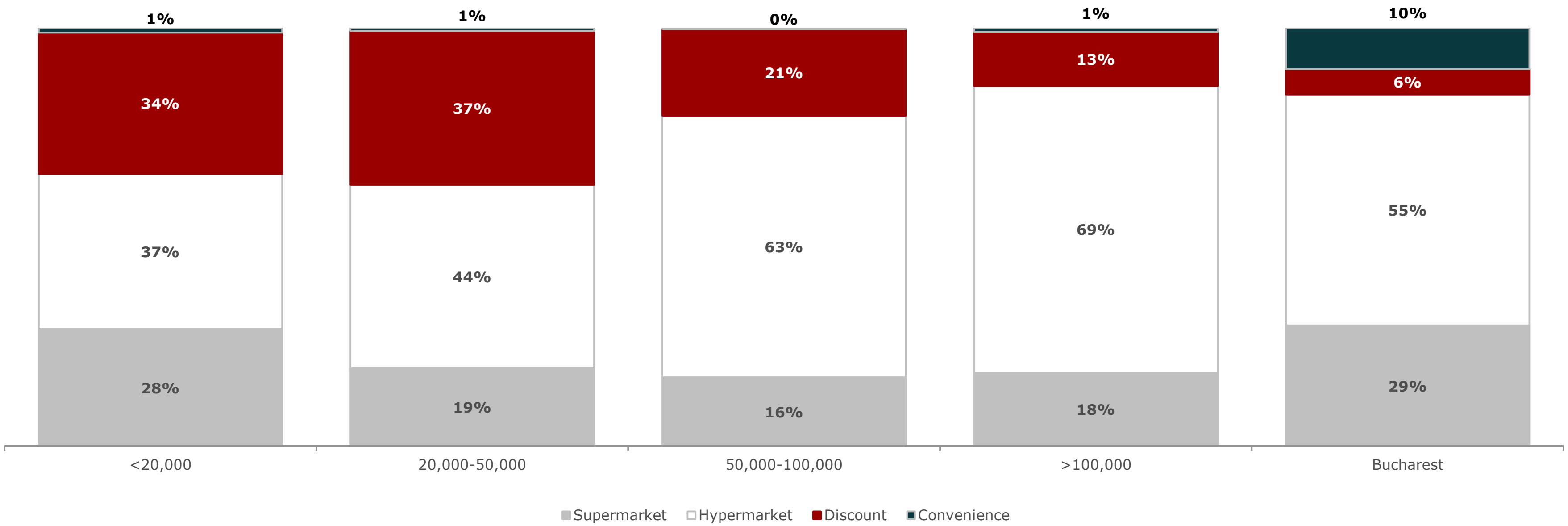
Note(*): Average excluding Romania. Excluding C&C.

Source: Euromonitor, PMR and Planet Retail

Breakdown of retail segments by population range

Discounters have a strong presence in small towns, while the footprint of supermarkets in medium-sized cities is still limited. Hypermarket is the predominant format in all the population ranges, especially in cities above 50,000 inhabitants

% of sqm by retail segment by population range - %



- **Discounters have a very strong presence in towns** below 50,000 inhabitants, while **in larger cities and especially in Bucharest**, their **presence diminishes sharply.**
- **The supermarket model is still highly underpenetrated in Romania,** showing a **higher footprint than discounters** only **in cities above 100,000 inhabitants and in Bucharest**.
- **Hypermarket is the predominant format in all the population ranges, mainly** due to the broad expansion of Kaufland, **accounting for more than 55% of the MGD sqm in cities above 50,000 inhabitants.**
- **The modern convenience segment represents 10% of the stores in Bucharest** but is **marginal in smaller cities.**

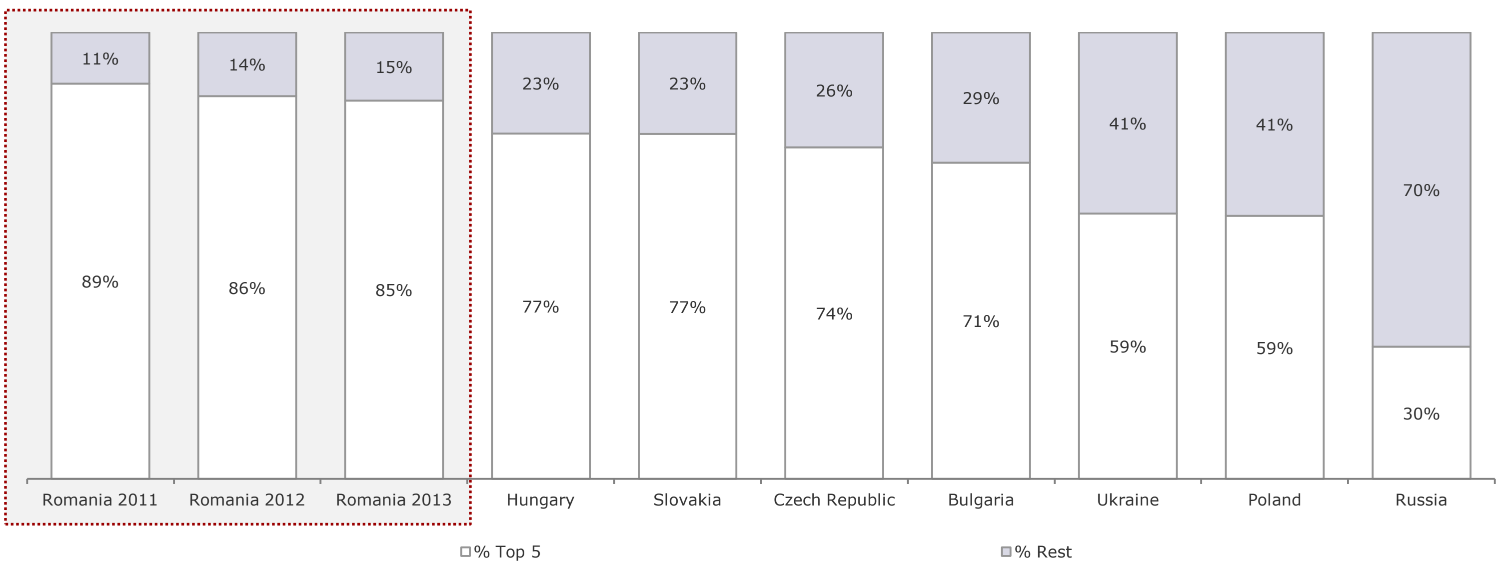
Source: Census 2011, Companies info and Beragua

Grocery market – Top 5 MGD concentration

Highly concentrated market: Top 5 players represent 85% of the MGD

- **The concentration in the Romanian MGD market i high but has slightly decreased:** in 2013 Top 5 players **accounted for c.85%** of the total MGD sales, **c.4pp less than in 2011**. However, Romania still shows the highest level of concentration of our benchmark, being well above all of its CEE peers, specially Ukraine, Poland and Russia.
- This **decrease** in concentration is **mostly explained by the acceleration of growth** of medium-sized players, such as **Mega Image** and **Profi.**

Top 5 market share – Benchmark 2013 – %

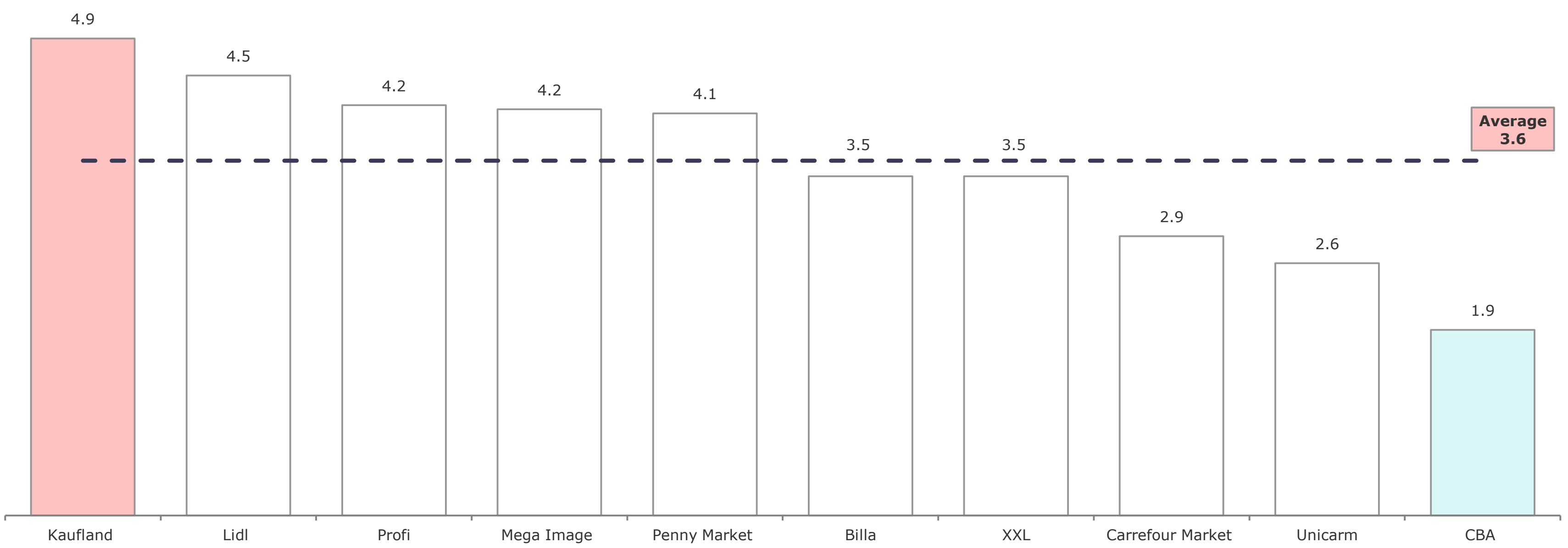


Source: PMR and Beragua

Grocery market – sales density benchmark

Overall sales densities of mature Billa stores (c.EUR3.5 th) lag considerably behind most top both international and domestic peers, being only above the figures of Carrefour Market, Unicarm and CBA

Sales/SQM – Benchmark 2013 – EUR th(*)

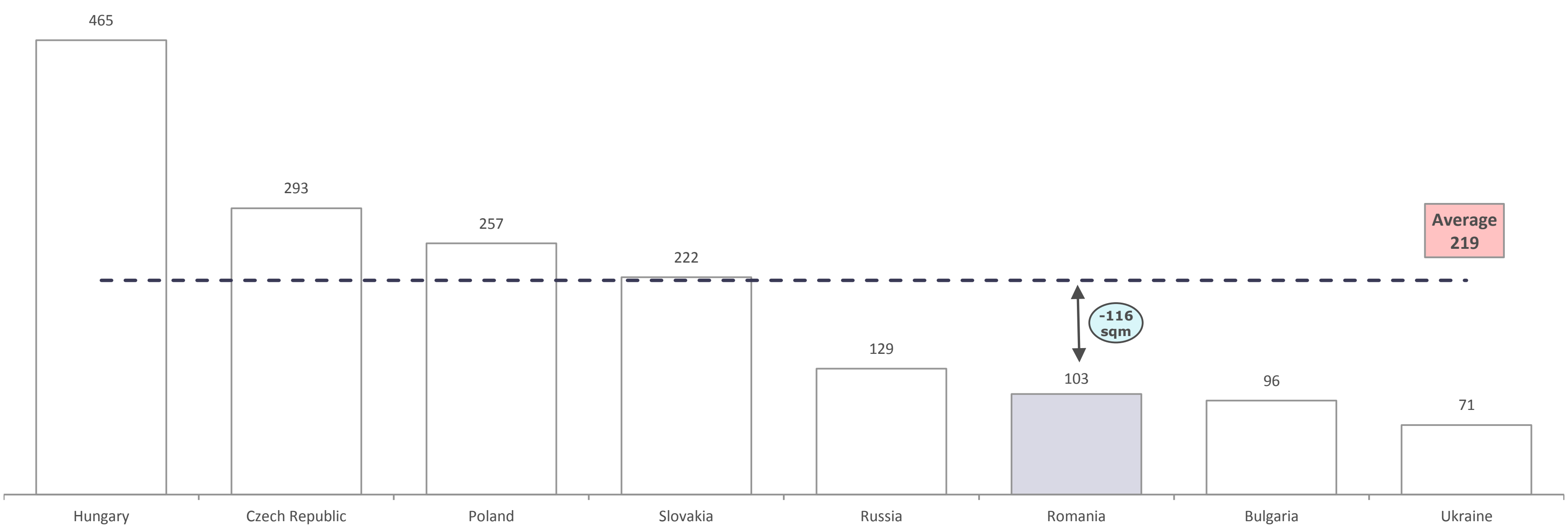


Source: PMR, Planet Retail, Companies info and Beragua

Grocery market – MGD SQM density

Romania still lags substantially behind Central Eastern European countries in MGD SQM density	**The density of MGD SQM in Romania still lags substantially behind Eastern European countries**, which implies that there is still **room for further expansion of modern formats in the near future**, underpinned by the overall economic growth and the decline of traditional food retailers

SQM / 1,000 inhabitants MGD – Benchmark 2013 (*)



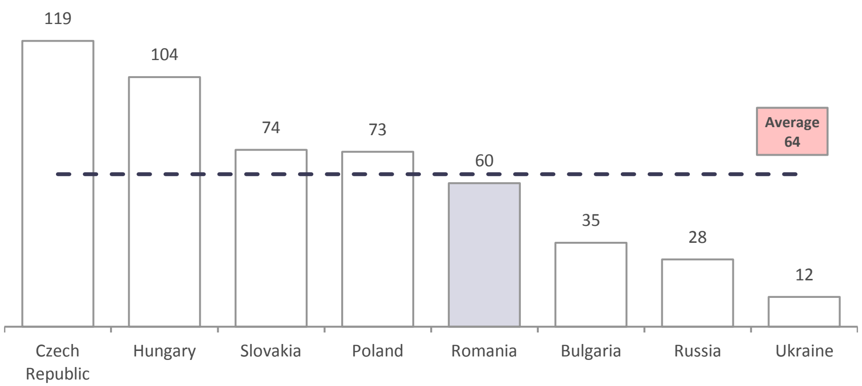
Note(*): Average excluding Romania. Excluding C&C.

Source: PMR, Planet Retail and Beragua

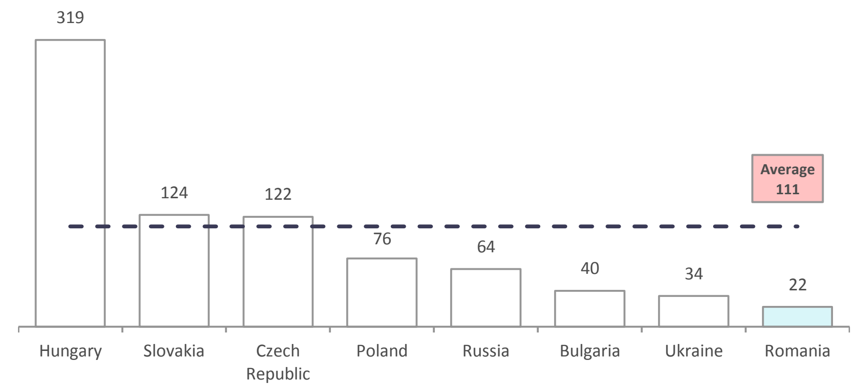
Grocery market – density benchmark by segments

The supermarket segment in Romania is underpenetrated compared to our benchmark, showing a strong potential for further development, while hypermarkets figures are almost in line with the average

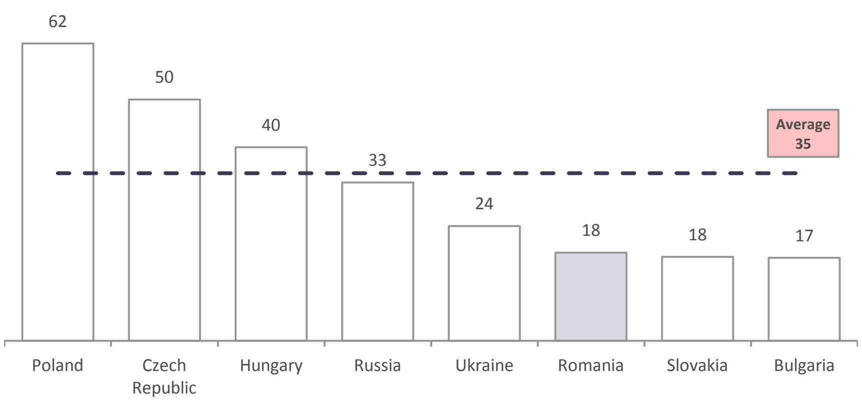
SQM of per 1,000 inhabitants – Benchmark(*) | **Hypermarkets**



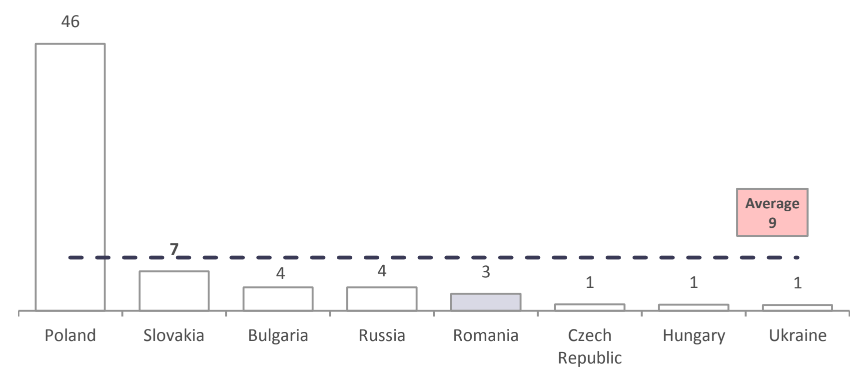
SQM of per 1,000 inhabitants - Benchmark(*) | **Supermarkets**



SQM of per 1,000 inhabitants – Benchmark(*) | **Discounters**



SQM of per 1,000 inhabitants – Benchmark(*) | **Convenience**



Note(*): Average excluding Romania.

Source: PMR, Planet Retail and Beragua

Grocery market – positioning of Top players

Romanian food retail market is dominated by international Companies in all retail segments. There are only 3 supermarket chains with nationwide coverage (Profi, Billa and Carrefour Market)

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Hypermarket segment is only operated by international players, being Kaufland the leader of the segment followed by Carrefour. In the segment coexist 'standard' hypermarkets (Cora, Carrefour) with price-oriented players (Auchan – which recently acquired Real hypermarkets – Kaufland and XXL).

C&C segment is only covered by international players. **Selgros (Rewe)** operates stores with an avge. selling area of 9,500 SQM, while **METRO** stores have an avge. selling area of 6,800 SQM.

There are only three supermarket players with national coverage: Profi, Carrefour Market and Billa. Unicarm is only present in the Transylvania region, while **Mega Image** (Delhaize) is **concentrated in the Bucharest region.**

Assortment

NON-ORGANIZED CONVENIENCE (MOM&POPS)

Convenience niche is still underdeveloped in Romania, being dominated by traditional players. The **only player** that made an attempt to develop a sizeable organized convenience network was **MIC.RO,** but it **went bankrupt in 2012. The current leader is LDP (Metro) with a lose franchise format.**

The **discount segment is dominated by Lidl and Penny Market** (Rewe discount format), all of them with similar commercial models than in other European countries.

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Price

Source: Companies info and Beragua

Recent developments in the Romanian food retail market

Carrefour has been one of the most active players in the Romanian market	▪ On **September of 2014**, **Carrefour introduced its Supeco discount store in Romania** in the city of Ramnicu Valcea. **As of today**, the Company has **3 stores in the country**, with a selling area ranging from 1,500-2,000 sqm. ▪ During **last year**, the French group launched a **new store concept** under the banner**, 'Carrefour Contact'**, a **small supermarket format present in small/rural areas**, designed for complementing the 'Carrefour Express' network, more focused in large cities. ▪ **Angst decided to withdraw from its franchise agreement with Carrefour**, after three years of partnership. This imply Carrefour has lost 22 stores. However, **Carrefour** has continued to **expand its franchise model** through the **acquisition of Compania Rimini**, **which will increase its network by 20 stores**.
Mega Image has expanded at a fast pace during 2014,and has also developed an online shopping platform	▪ Mega Image followed an **aggressive expansion path during 2014, opening 65 stores** (mainly in Bucharest) during the **first nine months of the year**. Notably, the **Company acquired 20 Angst supermarkets** after the Romanian company ended its partnership with Carrefour. ▪ During last year, **Mega Image developed an online shopping platform, in cooperation with Romania's leading e-commerce operator eMag**. The platform also allows the customers to first buy the products online and later collect them in the store. ▪ The Company has declared that it will **analyze opportunities to open a new distribution centre** in the West of the country **in 2015**, **to help support further expansion**.
Penny Market has continued to expand in Romania	**Penny Market** announced that it will continue its expansion in Romania, **opening 35 to 45 stores during the period 2014-2015**.

Source: Companies info and Beragua

Calle Triana 31
28016 Madrid
Telephone: +34 91 535 75 18
Fax: +34 91 536 28 95
info@beragua.com
www.beragua.com