

Russia and CIS sales 2015

Survey results (June 2015)



by Dr. Daniel Thorniley

President, DT-Global Business Consulting

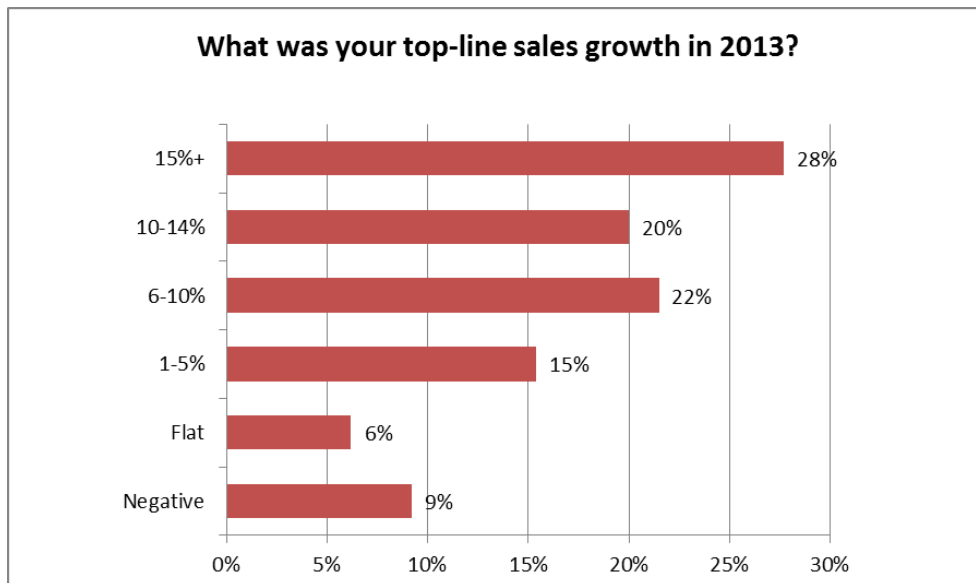
danielthorniley@dt-gbc.com

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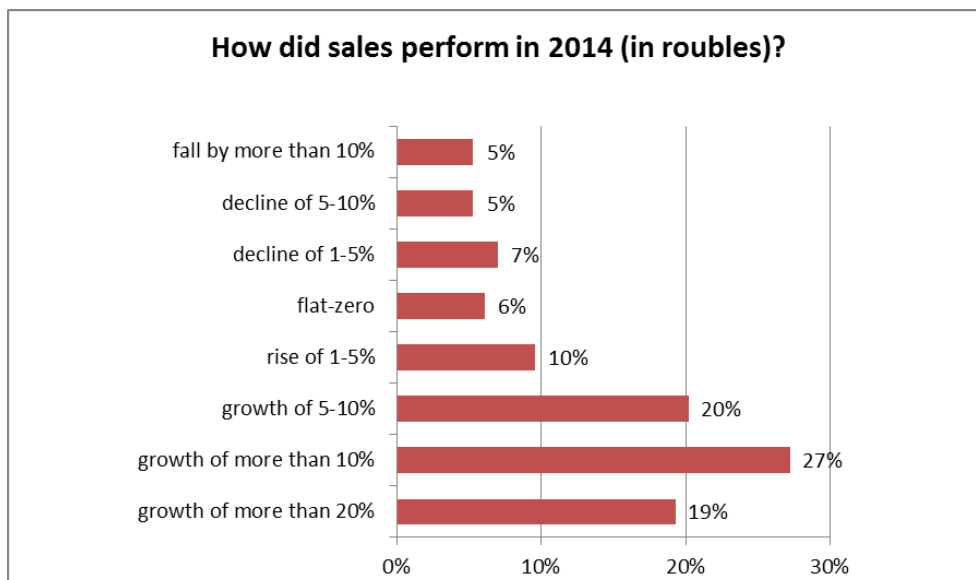
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For reference purposes: looking far back at 2013/2014

We perhaps need little reminding of the “good old days” and it is worth noting that despite the trend slowdown in business through 2013, fully 48% of companies reported double-digit sales growth with decent profit levels last year, while 37% recorded single-digit sales expansion. The gloomy side of last year was that 15% of firms finished the year flat or negative, which was a worse figure than in previous years when usually only 5-8% of companies reported such numbers.



Compared with results recorded in January, there was some slight tweaking by executives in their final results assessment but the dynamics remain very much the same. Some 46% were able to post double-digit sales growth (in local currency). Results improved markedly during November to the end of the year. So generally a curiously good end to 2014 but this is of course NOT sustainable.

The results for 2014 by sector are provided here in an easy-on-the-eye comparative table:

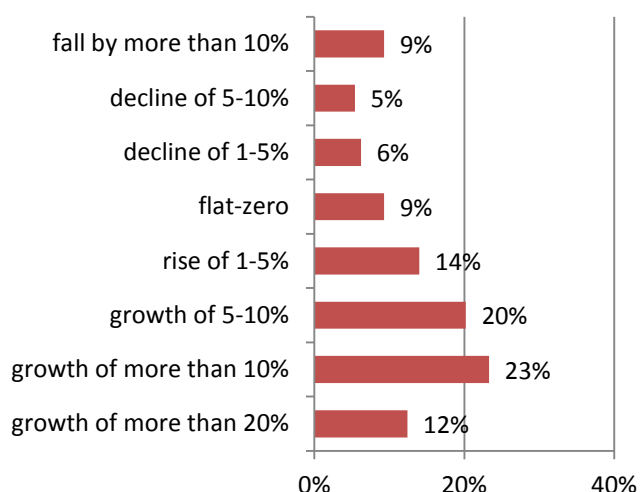
How did your sales perform in 2014 (in roubles)?

(Figures are rounded and therefore may not total exactly 100%)

	2014 results All sectors	Consumer products	Pharma/ health	Industrial/ B2B
Growth of 20%+	19	25	11	25
Growth of 10%+	27	37	33	12
Growth of 5-10%	20	8	28	25
Growth of 1-5%	10	12	11	0
Flat-zero	6	4	0	12
Decline of 1-5%	7	5	5	0
Decline of 5-10%	5	4	6	12
Decline of 10%+	5	3	7	13

The categories are clear: pharmaceutical and health survived well on a declining trend and sales to the federal government were weakest, sales to the private health sector quite good as were retail/OTC sales. Consumer products started the year quite well and finished on a strong note and thanks to this closing trend and due to poor federal pharmaceutical purchases, the consumer sector actually ended 2014 even stronger than the health sector for sales. And even industrials performed better than expected as some Russian firms spent year-end budgets and dug out some final cash: so a consumer flurry and a pick-up in B2B which had struggled for most the year.

For our budget/forecast for 2015 we are planning the following organic sales trends (in roubles):



The forecasts for rouble sales in 2015 are quite strong and similar to the final results achieved in 2014 and it seems companies have used the 2014 results as a strong bench-mark for this year: "Let's repeat (in roubles) what we managed last year and that will be something". Presumably much of this rouble growth will come from price increases: obtaining strong volume growth will be harder and of course when translating these results into FX, we have discussed the issues involved.

We also note below that achieving profit growth to match sales growth is very hard in the consumer products sector and also within B2B while pharmaceutical and health looks a bit stronger and suggest steady demand in that's sector and/or the willingness to pay for pretty products. However, tighter federal reimbursement will prevent any overall profit "boom".

It's worth repeating: forecasts are quite solid and could become harder to achieve especially with a bad start to the year presumed. However, anecdotally and from our Survey it seems the first quarter has turned out more mixed for companies rather than being an overall slump.

What is your budget for sales in 2015 (in roubles)?

(Figures are rounded and therefore may not total exactly 100%)

	2015 results All sectors	Consumer products	Pharma/ health	Industrial/ B2B
Growth of 20%+	12	15	6	0
Growth of 10%+	23	42	22	6
Growth of 5-10%	20	11	42	6
Growth of 1-5%	14	7	13	25
Flat-zero	9	4	6	18
Decline of 1-5%	6	7	6	0
Decline of 5-10%	5	7	3	12
Decline of 10%+	9	4	0	31

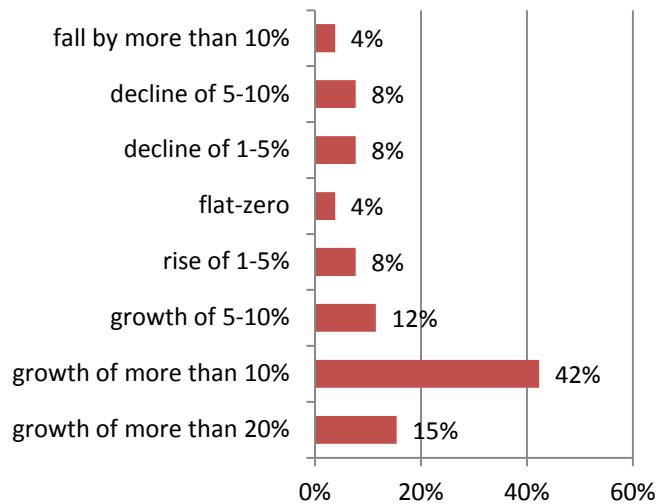
Consumer product companies are aiming for double-digit sales increases in 57% of companies while another 11% aim for high-single digits. Some 4% predict flat sales and 18% budget for negative rouble sales trends. Consumer product companies are now predicting better sales in 2015 than they anticipated 6 weeks ago after a good first quarter; but much will depend on how soft the summer turns out to be.

Given that companies predict mostly negative consumer spending in 2015, much of the planned sales increases will have to come from price rises and we know that most consumer product firms implemented their first set of price increases for 2015 in February ranging from 8-22%. Until recently many companies were predicting a tough profit outlook but the strengthening rouble combined with the February price increase means that many companies have seen some profit concerns diminish.

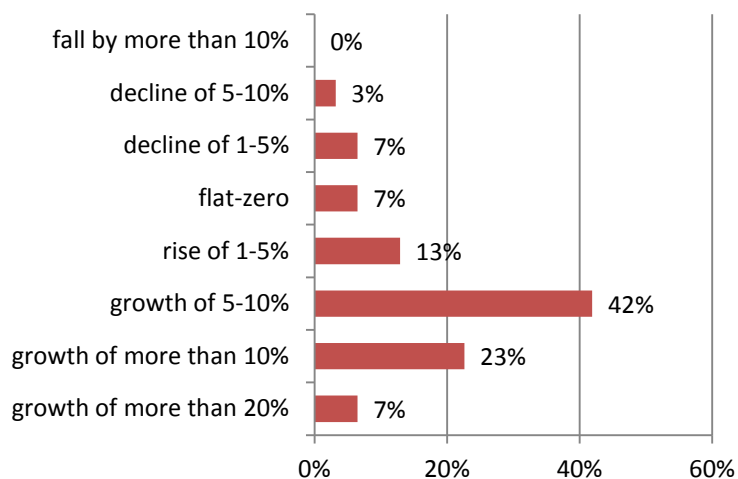
After quite bullish and strong estimates over recent weeks, many companies in this sector have adopted a more sober outlook: fewer pharmaceutical and health firms are now predicting double-digit growth compared with 6-7 weeks ago and more are clustering in high single digits. As we noted in our last report initial estimates appeared perhaps overly optimistic given the consumer slowdown and weakening federal spending.

The outlook is much more thoughtful in the industrial sector thanks to interest rates, financing access, sanctions and business confidence: automotive and IT could possibly recover from the bad lows of 2014 but 61% of firms predict flat or negative sales which is the worst sectoral forecast by far. And profits are strained at the same levels too. Industrial and investment trends will hold back business, and financing will be extremely tough. On the plus side, companies in this sector will also benefit from increasing import substitution and western companies will supply the equipment for Russian firms to become more self-sufficient and given that some companies have a conglomerate structure supplying to different customer bases, this may explain why 18% are upbeat looking to double-digit sales growth this year with almost one third clustered in single digits and mostly in low single digits. The recent beginnings of some easing in financing could be a small start to improvement but there is a long haul ahead.

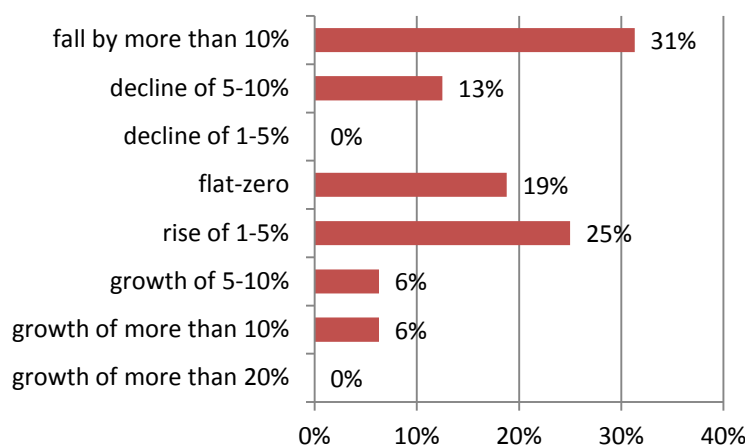
Consumer goods: for our budget/forecast for 2015 we are planning the following organic sales trends (in roubles):



Pharma/healthcare: for our budget/forecast for 2015 we are planning the following organic sales trends (in roubles):



Industrial/manufacturing: for our budget/forecast for 2015 we are planning the following organic sales trends (in roubles):



2015 sales projections for CIS markets (in local currency):

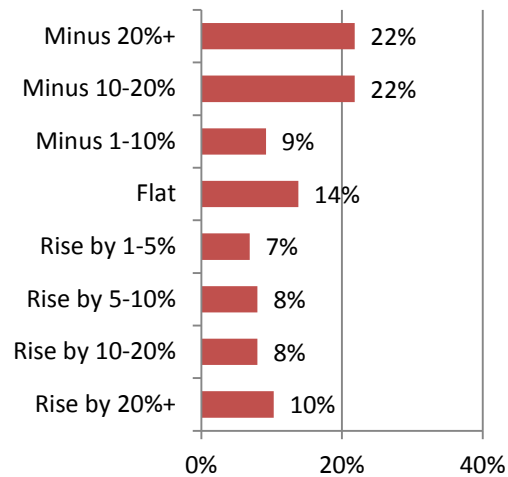
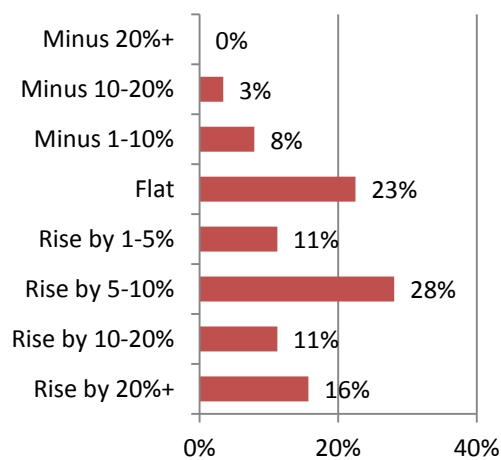
2015 results	Russia	Ukraine	Kazakhstan	Belarus
Growth of 20%+	12	10	16	9
Growth of 10%+	23	8	11	18
Growth of 5-10%	20	8	28	16
Growth of 1-5%	14	7	11	11
Flat-zero	9	14	23	28
Decline of 1-5%	6	9	8	9
Decline of 5-10%	5	22	3	7
Decline of 10%+	9	22	0	1

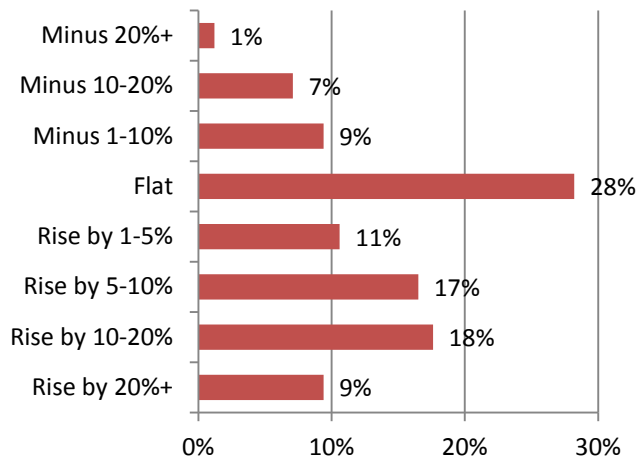
Some quick comparisons can be made:

Kazakhstan: expectations are starting to moderate as we suggested they would. The market was the joint best-performing market two months ago but as Russia seems to stabilize, in Kazakhstan those predicting strong sales growth have diminished. Still it is a good-looking market and this is backed up anecdotally. BUT there is a clear warning also that tenge devaluation is possible in the current environment and that would alter these numbers quite a lot. Such devaluation after Belarus and Azerbaijan would be no surprise. But in recent weeks there is more speculation whether such devaluation will take place or not given the Russian rouble rally.

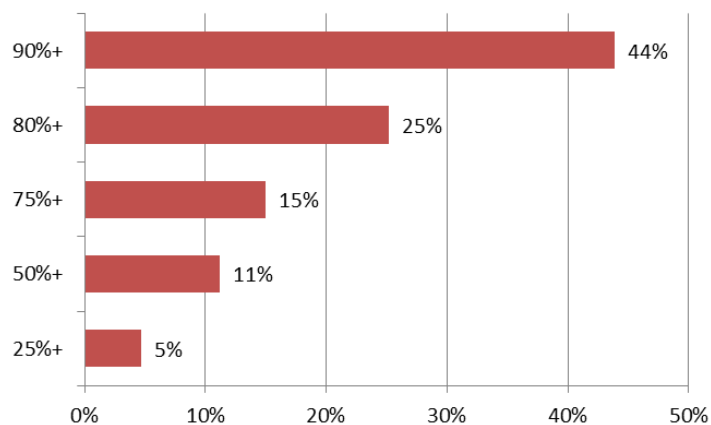
Ukraine is looking very tough for another year and worse than in 2014 because there will be no good start to this year. We have recently downgraded our economic and business outlook for Ukraine (see our quarterly reports). 2015 will be much harder with perhaps some improvement in the last quarter. Much will depend on IMF support, whether a default occurs and whether there is a public easing of the conflict in eastern Ukraine. These numbers in local currency are not good and if the hryvnia depreciates badly this year (and of course with the free float it collapsed at the start of 2015), then FX results will be very bleak for a second year running and in FX terms Ukraine could show up much worse than even in 2014. A possible debt default (restructuring) could hurt confidence more but such an eventuality may be postponed to 2016 or not.

Belarus is a small market and results are worsening compared with 2014 as the Belarus rouble comes under increasing pressure. Executives have tweaked down their forecast marginally for 2015.

Ukraine: what is your sales forecast for 2015 in local currency?**Kazakhstan: what is your sales forecast for 2015 in local currency?**

Belarus: what is your sales forecast for 2015 in local currency?**How big is the Russian market in the CIS?**

Russia remains the huge, massive volume market. These numbers match anecdotal remarks we have used for many years. For some 84% of companies Russia represents more than 75% of their volume sales.

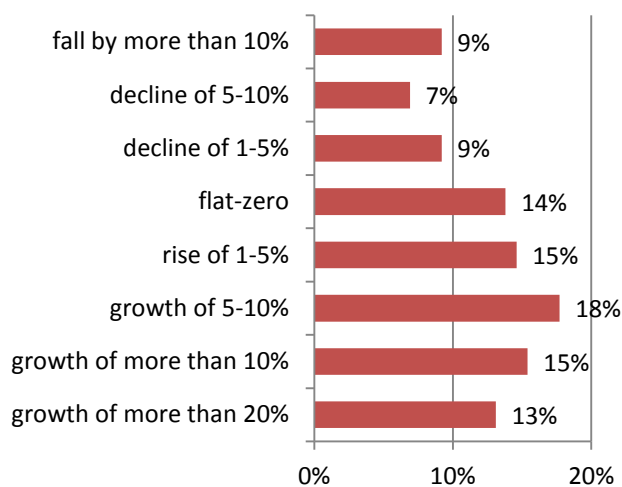
What proportion of your total CIS business will come from Russia in 2015?

Profits in 2015 (in roubles)

For our comments on profits, see the executive summary above and remarks included in sales outlook for 2015 above.

In summary: profits could turn out to be tougher to achieve than sales especially in consumer products and B2B as consumers/clients want more affordable products and services. On the plus side, the strengthening rouble and the introduction of price rises could actually help profits become bearable or decent or even potentially better than that. There is scope for windfall profits for some companies but we do not want to exaggerate this trend.

For our budget/forecast for 2015 we are planning the following organic profit trends (in roubles):



But looking at the numbers in FX and not roubles

This is where brutal reality kicks in. Remarkably 22% of companies plan for sales increases in 2015 in FX but 66% look to negative FX results. Obviously everything depends on the oil price and the exchange rate. As we argued above, if things go right with oil or sanctions, then the rouble can improve a lot and quickly and FX results would turn around as well. Some companies will be predicting some stabilisation or decelerating rate of currency decline in 2015 and that's reasonable.

But the major drawback is the FX rate used in initial budgets and reforecasts. It seems that many companies are locked into strong and perhaps unrealistic FX rates which have been imposed from regional headquarters in some cases.

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DT-Global Business Consulting GmbH, Address: Keinergerasse 8/33, 1030 Vienna, Austria,
Company registration: FN 331137t
and GSA Global Success Advisors GmbH, Hoffeldstraße 5, 2522 Oberwaltersdorf, Austria
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Contact: Dr Daniel Thorniley, President, DT Global Business Consulting GmbH
E: danielthorniley@dt-gbc.com / www.ceemeabusinessgroup.com

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Moscow

White Gardens
9 Lesnaya Street
Moscow 125047 Russia
Tel.: +7 495 787 2700
Fax: +7 495 787 2701
moscow@bakermckenzie.com

St. Petersburg

Bolshoy Center
4A Gritsova Lane
St. Petersburg 190000 Russia
Tel.: +7 812 303 9000
Fax: +7 812 325 6013
st.petersburg@bakermckenzie.com

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