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About the deal

On 11 October, 2019, German wholesaler Metro AG (Metro) has agreed to sell a majority stake in its Chinese operations (Metro China) to Wumei Technology Group, Inc. (Wumei), a leading retailer in China, in a bid to simplify its business and focus on its core customers in the hospitality industry. The deal includes the sale of Metro's entire indirect participation in Metro China to a subsidiary of Wumei for an enterprise value of 1.9 billion euros (US\$2.10 billion). Metro will retain a 20% stake in the Metro China-Wumart joint venture. The deal is subject to approval by regulatory authorities. Metro expects to receive net proceeds of 1 billion euros from the stake sale, which would be used to fund acquisitions. The transaction is expected to close no later than the second quarter of calendar year 2020. Metro China will be operated independently under its current local brand. Its headquarters will remain in Putuo, Shanghai.

Metro reportedly commenced a search for a buyer for the business in March 2019, with various sources reporting an asking price of between 1.4 billion euros (US\$1.5 billion) and 1.8 billion euros (US\$2 billion)¹. Apart from Wumei, other potential bidders included electronics retailer Suning Holdings Group and supermarket chain operator Yonghui Superstores.

Company profile

Metro AG

Metro is a German multinational wholesale/ cash and carry group which operates more than 770 stores in 26 countries. Metro, once a retail conglomerate, has restructured to focus on its cash and carry business in recent years, serving around 24 million professional customers such as hotels, restaurants and caterers (HoReCa), independent small retailers, institutions and offices. It sold off its Kaufhof department stores in 2015, split from consumer electronics group Ceconomy in 2017 and started the sales process for its Real hypermarkets in September 2018².

Metro opened its first store in China in 1996 and now has 97 stores in 59 cities, as well as real estate assets in major cities such as Beijing and Shanghai, serving 8 million final customers. Unlike some foreign retailers that have left the China market as a result of financial losses, Metro has generated sound revenue and profit in recent years. Its sales in China reached 2.7 billion euros sales in fiscal year 2017-2018. It has developed sales channels including O2O as well as fast-growing food service distribution and welfare and gifting business in China. It has 11,000 employees in China.

Wumei Holdings Inc.

Wumei Holdings Inc., parent of retail chain operator Wumart Stores Inc., was founded in 1994 and is headquartered in Beijing, China. Wumei Technology Group Co. Ltd. is Wumei's investment holding company. Wumei currently operates more than 1,000 outlets, including hypermarkets, convenience stores, department stores and home improvement stores, generating annual sales of 50 billion yuan. It also works closely with its technology partner Dmall, which is a leading online-to-offline (O2O) grocery digital platform in China that has connected with 12,000 stores from 80 retailers across China.

Wumei has been actively acquiring and investing in foreign retailers in recent years. For instance, it obtained majority stake in B&Q China for US\$219 million in 2014 and bought 22 stores from Lotte Mart for US\$230 million in 2018.

Comments from Fung Business Intelligence

Competition in China's hypermarket/supermarket sector is fierce; strategic partnerships and M&A are frequent

Wholesalers and retailers in China are facing intense competition, especially from online operators. Many have sought partnerships with other companies to upgrade themselves. For example, Walmart China has partnered with JD.com since 2016 to integrate their platforms, supply chains, and customer resources; Sichuan Hongqi Chain Store has collaborated with Yonghui Superstores since 2017 in fresh products procurement, logistics, retail channel management and supply chain finance. Meanwhile, some players have resorted to mergers and acquisitions (M&A) to expand their businesses. For example, Alibaba acquired a 36.16% stake in Sun Art Retail for US\$2.88 billion in 2017; and Suning.com bought an 80% stake in Carrefour China for US\$698 million in June 2019. Facing tremendous competition, it is not surprising for Metro to seek local partnership to thrive in this competitive market.

Metro China's good reputation and profitability helps lead to higher deal valuation

The deal values Metro China's business at 1.9 billion euros (US\$2.10 billion). The valuation is higher than the recent Carrefour China's 1.4 billion euros (US\$1.59 billion) deal to sell an 80% stake to Suning.com. After operating in China for 23 years, Metro has penetrated and gained a foothold in China's lower-tier cities. It also has good reputation among middle-class consumers, and made solid growth and sound profitability over recent years. In addition, its strengths in its private label products, product quality and supply chains have given it an advantage in the deal.

The deal enables Metro to focus on wholesale cash and carry business

Metro has been paring retail assets to focus on its wholesale cash and carry business over the past few years – it sold off its Kaufhof department stores in 2015, split from consumer electronics group Ceconomy in 2017 and started the sales process for its Real hypermarkets in September 2018. The deal can further advance Metro's strategy of focusing on its wholesale business. As a result of the transaction, Metro's core customer group – the HoReCa – will account for about 70% of Metro's global sales. Additionally, it can also receive a net proceed of 1 billion euros to fund acquisitions to accelerate Metro's growth in the wholesale business.

Wumei and Dmall will drive digital transformation of Metro China

The joint venture will enable Wumei, its technology partner Dmall and Metro to leverage their partnership and digital expertise to accelerate Metro China's growth and digital transformation. Comparing with other supermarket operators such as Yonghui Superstores or Walmart China, Metro China is a latecomer in embracing O2O strategies. With the help of Dmall, Metro China can easily connect with millions of online consumers on Dmall platform – consumers can order from Metro China via Dmall app and get the products delivered to their homes conveniently; this helps speed up Metro China's O2O development.

Wumei can provide better sourcing capabilities to Metro China

To survive and stand out in the highly competitive market, localized sourcing allows companies to offer a better price to consumers and thus enhance customer satisfaction and loyalty. By joining force with Wumei, Metro China can benefit from synergies in sourcing and have better access to local and fresh products; this enables Metro China to enrich its product offerings.

The partnership enables Wumei to explore and tap the membership store format

In China, the membership store format is still at a nascent stage of development. But Costco's recent debut in China caused hundreds of thousands of customers to flock to the store on the opening day, showing Chinese consumers' voracious appetite for foreign membership store operators. Metro China has operated membership stores in China for a long time; the partnership enables Wumei to explore the membership store business.



"We are convinced that Wumei and Dmall are the ideal partners for Metro AG to fully realize the potential of Metro China given our unique combination of retail DNA and digital excellence, our local knowledge and our strong and proven expertise in consolidating and growing multinational brands in China to deliver an enhanced customer proposition."

Wenzhong Zhang, Founder and Chairman of Wumei



"The transaction reflects Metro China's strong business performance and assets and it is another significant step in Metro's strategy to simplify its portfolio and transform to a pure wholesale company focused on the Metro brand and our core customers."

Olaf Koch, CEO of Metro AG

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