

X5 Head Quits Amid Weak Sales

By [The Moscow Times](#)

July 15, 2012

The  **Moscow Times**

The chief executive of top food retailer X5 Retail Group has quit amid persistently weak sales, paying the price for losing the support of shoppers and investors.

X5 has been underperforming against the backdrop of a resilient retail sector benefiting from free-spending, increasingly affluent urban Russians embracing modern shopping formats and heading to the malls. Official figures show that Russian year-on-year retail sales increased 6.8 percent in May.

CEO Andrei Gusev resigned Friday after a little more than a year in the job at X5, part of the Alfa Group empire, as the company announced that like-for-like store sales had fallen for a third consecutive quarter in the three months to June 30.

Gusev is stepping down immediately, X5 said in a statement, adding that board member Stephan DuCharme would assume the chief executive's role on a temporary basis.

X5 has struggled with operational issues since changing its strategy last year to focus on

organic expansion rather than acquisitions. The switch has been turbulent, with like-for-like sales slipping into negative territory and revenue growth slowing dramatically.

However, Gusev's resignation came as a surprise for the market, which had hoped he would deliver a turnaround for the company.

Mikhail Kasnoperov, an analyst at Troika Dialog, said it was too early to judge whether management was to blame for X5's underperformance. "What was happening last year was a turning point, from growth via acquisitions to organic expansion-driven growth, which was complicated by industry-wide problems," he said.

Analysts are also concerned about who will take over in the long term. "The company seems to have no immediate replacement, and it is unclear how much time it will take to find a new CEO. It is increasing investment risks for X5 shares," said Deutsche Bank's Natalya Smirnova.

X5 said Friday that second-quarter like-for-like sales fell 1.1 percent year on year, after drops of 3.9 percent and 2 percent in the two preceding quarters.

Despite showing a slight improvement on first-quarter total revenue growth, at 10 percent against 4.4 percent from January to March, the results disappointed the market.

Analysts had expected X5, which generated \$15 billion in 2011 sales, to cut its 15- to 20-percent full-year sales growth guidance after first-half sales grew by only 7.2 percent.

Kieran Balfe, X5's chief financial officer, said in a conference call Friday that the company was now expecting 15 percent growth, betting on higher inflation and its own promotion offerings.

The company saw an outflow of customers from all of its formats in the three months to June 30, which was particularly pronounced in hypermarkets, where traffic was down 7.9 percent.

Although overall penetration by modern retail formats in Russia is still low, promising years of double-digit growth, competition is fierce in most regions where retailers have been actively opening stores.

Magnit this week reported a slowdown in like-for-like sales growth to 3.5 percent for the first half, from 4.1 percent in the first quarter.

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