

An Equity Note

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What's Inside:

- New idea: Fix Price Group (FIXP)
- **Description:** Russia's largest value retailer with 4,000+ stores
- **Why Care?:** Massive runway + superior unit economics = long-term value creation
- **What's The Prize:** 11,000+ stores by 2030 generating RUB 59B in FCF for a 217% 10YR IRR

Companies Mentioned:

- Fix Price Group (FIXP)
- Five Below (FIVE)
- Dollar Store (DLTR)
- Dollorama (DOL.CA)

MO Equity Note: Fix Price Group (FIXP) – The Russian Machine

Last week we dove into Basic-Fit (BFIT), Europe's leading low-cost gym operator. If you haven't read it yet, check it out [here](#).

This weekend we're featuring a business similar to BFIT. One with industry-leading unit economics, a long runway for organic growth, and superior per-unit ROICs.

The business is **Fix Price (FIXP)**.

FIXP is Russia's largest value retailer with over 4,000 stores, ~2M average daily shoppers, and 93% market share. The company offers consistently low prices, a wide assortment of new "treasure hunt" items, and unrivaled geographical convenience.

Such scale advantages allow FIXP to charge the lowest prices (on average) while maintaining industry-leading profit margins and ROICs. Last year, for example, FIXP generated over 30% gross margins, 19% EBITDA margins, and ~100% ROIC.

Despite FIXP's rapid growth and market domination, the value retail concept remains *largely* under-penetrated. It commands only 0.6% of total retail spending in Russia. By 2027, however, value retail's revenue share should **double** to 1.4% of all retail spending, or RUB 1.8T (compared to FIXP's RUB 190B revenues in 2020).

The company sees a path towards 15,000 stores over the next 15 years. That's more than 3x higher than its current store count. Though they'll face enhanced competition as the size of the pie increases, this is FIXP's game to lose.

You can buy FIXP today for ~ RUB 507B or 14x LTM EBITDA while getting all future growth for free.

The write-up starts with a breakdown of FIXP's unit economics and customer value proposition. Then we highlight the potential addressable market as value retail gains popularity in Russia. Finally, we'll combine FIXP's leading economics with its market opportunity to draw a hypothesis of possible fair values.

Customer Value Proposition & Superior Unit Economics

FIXP offers ~1,800 SKUs across 20 categories, including toys, clothes, household items, food, pharmaceutical goods, and other babushkas. 80% of what the company sells goes for less than \$1.30. And the highest price you'll pay for any one item is RUB 200. FIXP sells its products through three segments: Private-label (35% of revenues), Third-Party (31%), and Non-Branded (35%). On average, customers spend ~ RUB 88 per item during their trip.

Low prices are the cornerstone to FIXP's competitive advantage and customer value proposition. So how are they able to charge such low prices while commanding strong gross and operating margins? The answer: **scaled economies shared**. Let's break the model down.

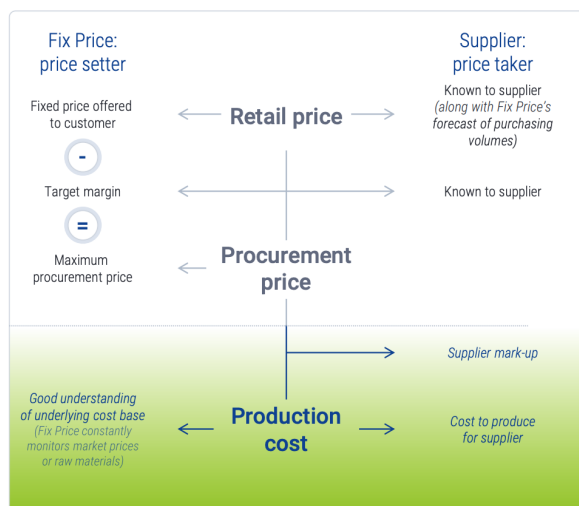
FIXP Sets The Price

As we mentioned earlier, FIXP is the largest value retailer with 4,000+ locations and over 890K square meters of total sales space. The company leverages its size to **set prices with its 672 suppliers**.

Here's how it works.

FIXP tells its suppliers how much it's willing to pay for each item, given its per-item target margin. Let's use an example.

TRANSPARENT PROCUREMENT MODEL BEHIND LOW PRICE STRATEGY



Assume Supplier A makes trash cans and sells them to FIXP. It costs Supplier A RUB 5 to make each trash can. FIXP then tells Supplier A, "Look, the most we'll pay for this product is RUB 8."

RUB 8 is FIXP's "Maximum Procurement Price." Once FIXP gets its procurement price, it adds its target margin to generate the retail price.

The beauty of the price-setting model is that as FIXP buys more products, it can lower procurement prices. In turn, FIXP's suppliers have no choice but to take the price because FIXP buys more than any other retailer and creates consistent, recurring order volumes.

To review, FIXP offers a straightforward value proposition: **Consistently provides lower prices on a wide assortment of products. As it grows, it passes its cost savings to its customers in the form of even lower prices in a wider variety of products.**

FIXP's customer value proposition leads to impenetrable cognitive reference with the Russian population. For example, **80% of consumers choose FIXP** when asked, "If you are to seek the lowest prices, which retail chain you would prefer?" The next closest competitor (Auchan) received a 5% response rate.

However, none of these scaled economies shared are possible without FIXP's industry-leading unit economic model.

FIXP's Path To World-Class Unit Economics

FIXP's unit economic model relies on two key levers:

- 100% Standardization
- Minimal capital expenditures

Every FIXP store is identical from the products to the signage, and even the racetrack layout. The average store is ~290 square meters with 4-5 full-time employees and 2-3 cash registers. Think of it like McDonald's. It doesn't matter where you are in the world -- **they all look the same.**

By standardizing every store, FIXP can perfect its store opening process while lowering its build-out costs (since it uses the same set of equipment for every store). Currently, the company spends 3% of revenue on CAPEX, including new store openings.

Alright, let's get to our unit economic model.

OUTSTANDING UNIT ECONOMICS



It costs ~ RUB 4.5M to build a store. By the end of the first year, a new store will generate ~ RUB 6.5M in EBITDA for a 160% ROIC. That equates to a ~9 month per-store payback period. To compare, the average ROIC for US-based value retailers is ~21.7%.

FIXP understands the power of its unit economic model and wants to open as many stores as possible. Again, they're shooting for 15,000+ over the next 15 years. Where will that growth come from? And how much room does value retail have to grow?

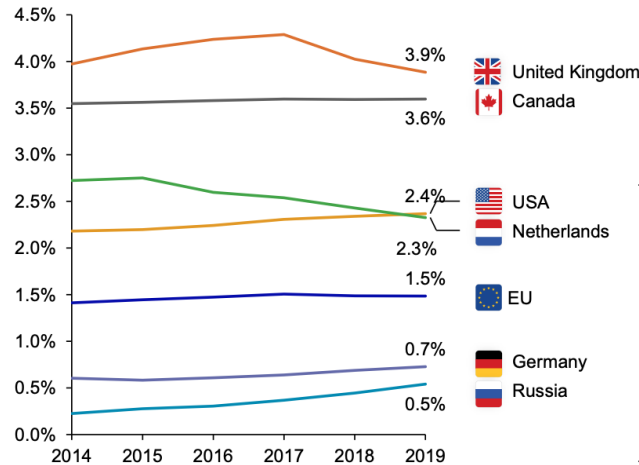
Value Retail Remains Highly Underpenetrated

As we mentioned earlier, the value retail segment remains highly underpenetrated in Russia's total retail industry. For context, the top two retail components (Grocery stores and neighborhood stores) account for ~49% of *all* retail spending.

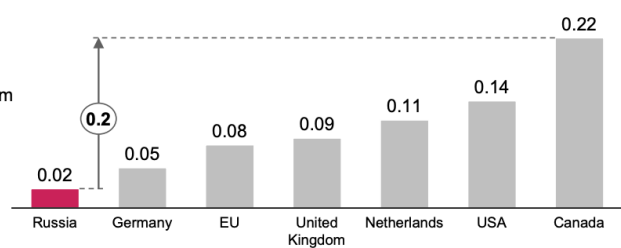
Value retail, on the other hand, accounts for 0.6%. That said, things are changing in favor of value retail. Over the next seven years, value retail will grow at a near 17% CAGR and capture 1.4% of total retail spending.

Russia remains much lower than developed markets in terms of share of Variety Value Retail market and penetration

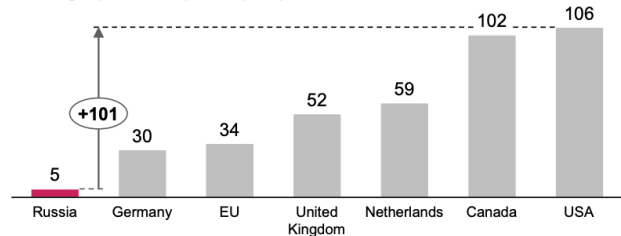
Share of Variety Value Retail¹ in total retail market, %
2014-2019



Stores per K people, 2019



Selling Space M² per K people, 2019



There's plenty of room for decades-long growth, too. Russia boasts 0.02 value retail stores for every 1,000 people. This compares to 0.14 in the US and 0.22 in Canada. Moreover, Russia has ~5 square meters of value retail selling space per 1,000 people. The United States has 20x the square meters or 106 per 1,000 people.

The above evidence points to a long organic runway. The company is the strongest-positioned amongst its global peers capture the bulk of the next seven years' 17% CAGR.

And if FIXP does capture the majority of that growth, what would that future business look like? What would it be worth?

What's The Size of The Prize?

This year (2021), the company expects to open 700 new stores. In 2022 they're planning for ~750 openings. After that, FIXP estimates another ~800 net store openings per year until 2025, which gets us to 8,000 stores by 2025.

Last year (2020), FIXP generated ~ RUB 46B in revenue per store. Assuming zero Like-For-Like (LFL) store sales growth, we'll end 2025 with ~ RUB 366B in annual revenue and RUB 70B in EBITDA (19% margin). From here, we can subtract income tax, CAPEX (3% of revenues), and lease payments (5% of revenues) to get **RUB 38B in FCF**, or RUB 4.74B per store.

The company plans to use its free cash flow for more store openings and shareholder dividends (~50% of net profits).

Now, let's assume the company opens ~750 net new stores per year until 2030. This would result in a ~7% annual store count growth rate, well below FIXP's historical 19% store opening rate.

By 2030, FIXP will operate 11,000 stores generating **RUB 537B in revenue and RUB 59B in free cash flow.**

Assuming a 10% discount rate on future free cash flows, we end 2030 with nearly RUB 1.6T in Shareholder Value or RUB 1,800/share. **That implies a potential 217% upside and a 21% 10YR CAGR.**

Sum of Future FCFs	\$224,477
Terminal Value: FCF/(D-G)	\$3,206,808
PV of TV	\$1,359,999
Enterprise Value	\$1,584,476
<i>Less: Net Debt</i>	\$21,464
Shareholder Value	\$1,563,012
Number of Shares Outstanding	850
Per-Share Shareholder Value	\$1,839
Current Share Price	580
Implied Upside	217.04%
10YR CAGR	21.70%

Concluding Thoughts

FIXP is an excellent example of the power of a simple business model executed to perfection. Since its founding, the entire management team has stayed with the company, and FIXP's two co-founders still own ~70% of the business.

The company has a clear path to nearly tripling its store count while using its scale advantages to benefit customers via lower prices. All while generating 100%+ ROIC for shareholders.

The value retail segment is FIXP's for the taking. If they execute as they have historically, the company *should* capture a significant portion of the industry's seven-year, 17% CAGR tailwind. The company offers customers something that never goes out of style: **consistently low prices and everyday surprises.**