GOALS AND STRATEGY

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METRO/METRO WHOLESALE

- As a leading international food wholesaler, METRO continues its transformation into a wholesale specialist in financial year 2018/19.
- Disposal of a majority stake in METRO China immediately after the end of the reporting period supports the focus on the core customer groups HoReCa and Trader.
- With the 'Wholesale 360' approach, METRO positions itself as the partner of choice for thewholesale customers through a comprehensive range of products, consulting, digital tools, marketplace, services and equipment.

METRO is a leading international food wholesaler and global market leader in the cash-and-carry format. METRO is managed by METRO AG as the central strategic management holding company, which also assumes central management and administrative functions for the METRO Wholesale sales line.

METRO Wholesale is active in 34 countries worldwide, including 24 countries with 678 wholesale stores under the METRO and MAKRO brands. The delivery business (Food Service Distribution, FSD) is also part of METRO Wholesale, including the METRO delivery service and the companies specialised in delivery: Classic Fine Foods, Pro à Pro and Rungis Express.

The Others segment includes the digitalisation activities of METRO. They mainly comprise the activities of the Hospitality Digital business unit. The segment also includes the real estate company METRO PROPERTIES as well as various service companies that provide internal services for METRO in the areas of logistics, information technology, advertising and procurement.

METRO's focus on food wholesale follows a long-term strategy that has been continuously and successfully implemented in recent years. METRO already initiated the transformation from a conglomerate to a wholesale specialist in 2012. Following the disposals of the international Real business and Galeria Kaufhof as well as the spin-off of Media-Saturn, a contract was signed on 11 October 2019 for the sale of a majority stake in METRO China to Wumei. Thus, the core customer groups HoReCa and Traders will account for around 70% of METRO's worldwide sales. Moreover, the transaction offers further opportunities to accelerate growth organically and through acquisitions.

At the same time, METRO AG's 20% investments in the joint venture opens up various strategic partnership opportunities with Wumei and its technology partner Dmall, particularly with regard to the international procurement of goods. METRO will continue to participate in the growth of its business in China in a dynamic market environment with improved conditions. The advanced sale of Real marks the conclusion of the transformation process towards an exclusive focus on the wholesale business.

The sale of the hypermarket business is well advanced. We are in the final stages of negotiations and are working with the potential buyer on the future concept for Real, which includes retaining part of the core business and passing on some store networks to competitors. Moreover, the early involvement of the antitrust authorities has increased transaction security. Therefore, we are confident that we will be able to sign off on the transaction in the very near future.

The strategy of focusing on METRO Wholesale is aimed at long-term, consistent growth of (like-for-like) sales and earnings. The like-for-like sales development of METRO Wholesale has been positive for 6 years based on year-on-year growth rates. The wholesale business targets a very attractive industry sector that is characterised by (compared to food retail) very strong customer relationships, high shopping frequency, large shopping baskets and high productivity at significantly lower cost to serve.

HoReCa and Traders Focus

The 2 core customer groups of METRO Wholesale are HoReCa and Traders. The HoReCa section includes hotels, restaurants, bars and cafés as well as catering companies and canteen operators. The Traders section includes, for example, small grocery stores, kiosks, street food vendors as well as petrol stations and other wholesalers. Both core customer groups have very large market potentials. Service Companies and Offices (SCO) are another customer group.

The HoReCa customer group in particular is showing very high growth momentum. Above all, the reason for this is the continuously increasing in out-of-home food consumption. The change in consumer behaviour is leading to an increase in out of home consumption and to a trend towards convenience solutions, from which the Traders customer group also benefits.

Portfolio and market consolidation

In the core customer groups HoReCa and Traders, METRO Wholesale aims to play a leading role as a product and service provider, depending on local market conditions. METRO Wholesale combines an extensive network of modern wholesale stores with delivery sales and digital services such as an online ordering system. The country portfolio of METRO Wholesale is divided into core customer groups and regions, and is regularly reviewed with regard to the feasibility of local market leadership and the attractiveness of the respective markets. Accordingly, possible portfolio adjustments of METRO Wholesale adhere to strict implementation of the strategy to achieve a leading role in the respective market. On the one hand, this can be done through acquisitions for further market consolidation, but on the other hand it does not rule out market exits for portfolio simplification.

Localisation via country-specific value creation plans

METRO Wholesale consistently aligns its business model to customer value and strengthens its local organisations to establish a closer relationship with B2B customers. Depending on the main customer focus in the respective countries, METRO offers a tailored product range that matches the specific preferences and requirements of its customers. By tailoring METRO products, services and sales channels to local needs, we can exploit local market opportunities to their full potential.

Based on the business model, the national subsidiaries develop and implement their local strategies, which are then translated into individual value creation plans that enable transformation and growth according to local conditions. The central holding functions support local value creation, in particular by relieving administrative tasks. Based on the country-specific and locally generated value creation plans, METRO Wholesale has identified 5 major strategic value enhancers for its wholesale business:

- We want to leverage the full potential of the markets we serve across all customer groups. This is accomplished by differentiating the wholesale stores, for example by designing stores that are specifically tailored to the different customer groups and their respective needs.
- We intend to further expand the delivery sales because it is attractive and complements the core business of the wholesale stores. Delivery is the most important procurement channel for HoReCa customers in most countries.
- We intend to further roll out the Trader Franchising Model in countries such as Poland, Romania and Russia. METRO Wholesale operates in a similar way as a franchisor with its own brand identity. It provides products and offers additional services to the participating independent grocery stores, such as training courses and assortment consultancy. The expansion of the model helps open up new growth opportunities in relevant markets.
- We aim to increase our operating efficiency in order to reduce our cost base. To this end, on the one hand, the group-wide synergy potential is to be exploited. On the other hand, cost advantages are to be realised through strategic cooperation projects with international retail and wholesale companies, for example by reducing procurement costs through international purchasing alliances.
- METRO Wholesale provides its customers with the opportunity to benefit from its know-how by offering them training courses, tutorials and professional advice.

Wholesale 360

Building on its successful core business, METRO Wholesale is expanding its offering and business model as part of its strategic approach Wholesale 360. Across all customer groups, the majority of METRO Wholesale customers are small and medium-sized companies as well as sole traders. One objective of Wholesale 360 approach is to strengthen the competitiveness of its customers – not only to make them and their business model more successful, but also with the aim of increasing customer retention over the long term and to become the preferred partner for HoReCa and Traders customers. Consequently, METRO wants to assist its customers in helping with their business challenges by providing them with sustainable solutions with superior added economic value, which we have combined under the Wholesale 360 approach.

To achieve this, METRO leverages its experience, knowledge, resources and global presence, which it has gained and perfected in the 55 years since the first METRO wholesale store was opened in Germany. In addition, in a constantly changing environment, the current and future challenges of the customers are identified at an early stage and addressed by offering professional services and digital solutions. It pursues the goal of expanding the customer relationship from a transactional merchandise trade to a sustainable and holistic partnership. This allows METRO to clearly differentiate itself from other wholesalers.

The Wholesale 360 approach is made up of 6 subject areas: Products, consulting, digital tools, marketplace, services and equipment.

- METRO’s core competence is to offer ultra-fresh, high-quality food at attractive prices, tailored to local needs. To this end, METRO Wholesale’s national companies continuously develop their product ranges in order to increase customer satisfaction, shopping cart size and repurchase rates. This also includes the introduction of METRO Chef Gourvenience, an assortment of convenience products at the highest level for professionals.
- Our customers are faced with a multitude of complex challenges, such as lack of personnel and time, efficient operational management, offer design or financing gaps. We offer individual top consulting, based on the know-how and experience of METRO. For this purpose METRO invests in the consulting competence of the customer managers and uses the possibilities of data analysis. In the future market India, METRO and the Fintech company ePayLater developed the app ‘Digital Shop’ for Kirana dealers to help them efficiently track sales, manage inventories or process free digital payments.
- Access to digital solutions and innovative applications is a key topic of our Wholesale 360 approach. The Hospitality Digital business unit offers customers from the hospitality industry convenient access to digital applications, such as free services for creating a website, online reservation systems or efficient staff management systems. Moreover, applications are available for optimising the respective operation, such as the MenuKit for automatic calculation of the cost of goods sold. These applications provide commercial added value for hospitality customers and will be used in a targeted manner in the future to expand existing customer relationships and to achieve an increase in new customers. Digitalisation represents an important strategic growth area and an investment into METRO’s future, and is consistently being implemented, in particular, by METRO-NOM, the group’s own IT subsidiary. METRO-NOM assists in the digital transformation of METRO and develops IT solutions for METRO Wholesale and customer contact points. It includes, for example, the M-Shop customer platform and the METRO Companion shopping app.
- The online marketplace METRO MARKETS, which represents another topic area in our Wholesale 360 approach and is aimed in particular at HoReCa customers, was launched in Germany in September 2019 and is supposed to be expanded to other countries after a pilot phase.

- The range of services within the scope of the Wholesale 360 approach is being intensively worked on, as we expect it to provide noticeable growth impulses in the future. First, we are offering additional services such as financial services in selected countries.
- Modern equipment in modern hospitality industry helps increase productivity and cut costs, while at the same time offering a high level of service quality. Strategic cooperations enable integrated solutions, for example professional equipment at advantageous conditions. In cooperation with Pentagast, the largest association of gastronomy and kitchen equipment suppliers, we provide trend-setting food and kitchen solutions. METRO is thus expanding its product range and reaching further potential customers.

Real estate

METRO has extensive real estate assets and manages a portfolio of more than 670 operating locations. The real estate sector makes a significant and long-term contribution to the corporate success of the wholesale and food specialist.

METRO PROPERTIES concentrates the real estate know-how of METRO and has established itself on the market as a reputable real estate company.

The company operates, develops and markets an international portfolio of properties. Its activities cover the entire life cycle of METRO's real estate assets: from future-oriented investments, economic property operation/maintenance to sustainable and creative development of real estate assets as well as the realisation of capital gains during disposal at the right point in time. For example, in the reporting period, METRO PROPERTIES sold the EDU retail park in Bremen after extensive project development. With its attractive mix of tenants and industries, the EDU now represents a highly frequented retail location of around 50,000 m^2. Other examples of successful development projects and sale-and-leaseback transactions are portfolios in Western Europe and Spain as well as in other Central and Eastern European countries. In addition, METRO PROPERTIES developed mixed-use concepts for Asian locations in Shanghai, India, China and Bangalore and has lined up additional projects for the coming years in Germany, Europe and Asia.

Sustainability

METRO is strongly committed to promoting the success and satisfaction of its more than 16 million customers worldwide, in a responsible manner. For more than 20 years, METRO has pursued to orientate all corporate processes towards sustainability in its own business operations as well as in the supply chain. In addition to reducing food waste and promoting conscious consumption, the company continues to pursue a clear commitment to cut its CO_2 emissions in half by 2030 when compared to 2011. In 2019, METRO was ranked for the 5^{th} time in a row as the European industry leader in the Food & Staples Retailing group in the Dow Jones Sustainability Index. Sustainability is not only an established part of METRO's business model, but also an indispensable part of the wholesale specialist's future strategy in terms of resource availability, talent acquisition and retention as well as customer demand and regulation.