

# R&D Outsourcing

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## Vaneev's case: how the founder of Eurodon lost his business



Debt of Eurodon is more than 28 billion rubles, in August the company made a delay in its loan to VEB, and in October the main creditor and owner of the company removed Vadim Vaneev from management and began looking for a buyer for his 74%

Photo: Yuri Chichkov for RBC

"Who is guilty? The person is always to blame. So I shouldn't have dealt with turkey. I had to sit at home, drink tea, and not build a business," Vadim Vaneev gloomily sneers. The entrepreneur looks tired: the last two years have been especially difficult for Eurodon. Three outbreaks of bird flu, the death of 3.5 million turkeys, and the sale of meat at a price below cost effectively ruined his business.

On October 26, 2018, the media spread the news that all the turkeys died in the poultry houses of the Rostov agricultural holding "Eurodon" due to a power outage. "The one who lowered the switch knew where it would lead. This is a living being, he needs warmth. Now there is no bird in Eurodon, it is all dead," Olga Grekova, head of the Eurodon communications service, emotionally described the situation in a telephone interview with one of the Rostov media (the recording of the conversation is at the disposal of RBC magazine).

TNS energo Rostov-on-Don did indeed cut off electricity at Eurodon on October 24 - the holding's debt to power engineers exceeded RUB 50 million - but only on empty sites where there were no poultry. "The information about the death of all poultry at the Eurodon enterprise does not correspond to reality. Parent stock facilities and incubators were not disconnected from the power supply," Nikita Ananichev, head of the information and public relations service of the energy company, told RBC. The very next day, TNS agreed with VEB to pay off Eurodon's debt, and on November 2, the production was switched on again.

The news of the one-time death of the entire livestock turned out to be fake - on October 29, an official denial appeared on the Eurodon website. Vaneev says he does not know who launched it and why: "There are 6 thousand people in the company, I am on business trips. There is so much misinformation about me: they said that I have an estate in London, that I drive an Aston Martin, and, believe me, I can't tell Aston Martin from Ferrari. "

Eurodon did indeed lose 3.5 million turkey heads, but not overnight, but over the past five months,

during which the holding actually stopped its work. Now only the parent flock is alive - about 72 thousand heads - and another 377 thousand eggs in incubators and the hope that the new management team will be able to pull the company out of the crisis.

#### Fashion turkey

The history of Eurodon began in 2003, when Vadim Vaneev, the owner of the Michel-Alco supermarket and alcohol business in the Rostov region, decided to breed a turkey. The product was unusual for the Russians, but Vaneev seemed promising: only two factories produced turkey meat in Russia at that time, while it was more dietary and "more fashionable" than chicken and pork.

But the banks refused Vaneev loans, and he did not have his own money to launch large-scale production. Then the businessman decided to use the "power of blood": he made his way to the reception of the famous countryman, also a native of North Ossetia, Valery Gergiev. The artistic director of the Mariinsky, who in 2009 became the owner of 15% of Eurodon, listened to the business plan and agreed to introduce Vaneev to the chairman of the board of VTB Bank Andrey Kostin. Communication with Kostin turned out to be short, almost immediately Vaneev was helped by the Deputy Chairman of VTB Board Vladimir Dmitriev, who for the next 11 years was a kind of guardian angel for the turkey business.

In 2005, at the request of Dmitriev, Eurodon LLC received a loan of € 20 million in exchange for 40% in the company (the remaining 60% remained with the founder). Vaneev rented land in the Rostov region and launched the construction of 11 poultry facilities at once. In the middle of the journey, it turned out that the rise in cement prices increased the cost of the project by a third and the allocated € 20 million is no longer enough. According to Vaneev, VTB offered him to mortgage 90% of the company and receive a new tranche, but the entrepreneur refused.

Dmitriev was again involved in solving the problem, who by that time had already headed the state-owned Vnesheconombank. VEB bought out Vaneev's loan from VTB and continued to finance the project. Vaneev confirmed Dmitriev's help in this matter in an interview with RBC in 2016. "We were initially engaged in VTB [Vladimir] Dmitriev, but at that time he had already moved to VEB. We were friends, we came to him <...>. VEB bought our debt from VTB, promised and bought it back. And that's it, we switched to VEB. "

In 2007, construction was completed, Eurodon began wholesale deliveries of turkey meat under the Indolina brand to Rostov, Moscow and other regions. Viktor Zubkov, then the first deputy chairman of the Russian government, came to the enterprise, followed by Vladimir Putin, who in 2010 held the post of prime minister. The politicians were impressed by the scale of Vaneev's enterprise and his approach to business - by that time, the businessman knew turkey no worse than a hereditary agrarian.

#### These two

and the visit was provided to Vaneev with a new credit line from VEB in the amount of more than 17.9 billion rubles. Vladimir Putin personally approved this loan in 2012 as the head of the supervisory board of VEB. According to Vaneev, 12 billion rubles. went to expand the project: the construction of an incubator for 22 million eggs, a meat processing plant, poultry houses and infrastructure. Another 7 billion rubles. the entrepreneur received from the Rosselkhozbank to launch a new business: in 2013, in the Millerovo district of the Rostov region, the Donstar company (99% owned by Vaneev) began operating, which produces duck meat under the Utolina brand.

#### Catch up and overtake

Vaneev's fix idea was the continuous increase in volumes. At the time of Eurodon's launch, turkey meat in Russia was produced by Krasnobor Tula and Egoryevskaya Poultry Factory in the Moscow

Region. Vaneev immediately set the task of catching up and overtaking competitors and already in 2007 produced the most turkey meat - 9.1 thousand tons. In 2014, despite the crisis, he increased production to 32 thousand tons per year, in 2016 - up to 59.9 thousand tons of turkey meat.

According to market participants, this was the first and main reason for the economic problems of Vaneev's business. Eurodon is an amazing company, I am amazed how it has survived on the market for so many years, "says Arkady Levin, founder of the Krasnobor holding. "The owner chose the most intensive way of development, which led to overstocking of warehouses, the impossibility to sell the produced volume of products, an avalanche-like decline in prices and, accordingly, the collapse of the market".

An uncontrolled increase in production volumes in difficult financial conditions for the company was an obvious managerial mistake, says a source familiar with the situation at Eurodon: "Vaneev is very proud of his volumes, constantly flaunts it, but there was so much meat that they simply did not have time to sell it. As a result, in the period from 2016 to 2018, Eurodon was selling turkey 30-40% lower than the cost price. Naturally, this was one of the reasons for the financial collapse and subsequent credit default. " Vaneev admits that in the difficult years for the company in 2017-2018 he sold products below cost, according to him, by 10-15%, but he does not blame miscalculations, but force majeure - three waves of bird flu that covered Eurodon alone after another. "So you can know if you will get the flu this winter or not? Can not. Vaccinations will not help either - you protect the herd from one strain, and there are dozens of them, - Vaneev argues in a conversation with the RBC correspondent. "The epidemic has covered the whole country, and only Vaneeva is blamed for the bird flu."

There were different versions of how the virus got into production: Vaneev himself insisted on sabotage, without blaming anyone in particular. According to the official conclusion of the Rosselkhoznadzor, the genome of the virus was found in samples of turkey material, which were kept at two sites in the Rostov region. "The official conclusion was - yes, bird flu. And then they said in our ear: we do not know what is happening, there is a virus, and the bird does not die. This does not happen with the flu, "says Vaneev.

"Conspiracy theories began: allegedly some sick turkey walked into the ventilation and died there ... Then Vaneev said that one of the competitors had sent this bird. Well, the same kindergarten. We need to behave like an adult and admit managerial mistakes, "says one of the interlocutors of RBC magazine, who is familiar with the situation. One way or another, at the end of 2016 and early 2017, Eurodon had to score about a million heads of infected turkey - 40% of the population. Quarantine was introduced for seven months, sales stopped. In November 2017, shipments from Eurodon were finally allowed: then they started selling meat from warehouses below the cost price in order to generate at least some revenue, explains Vaneev.

By the end of 2017, Eurodon had managed to revive 3.5 million turkey heads in a commercial herd, and by May next, bring the company to an operating plus. But in the summer of 2018, history repeated itself: several regions of Russia were again covered by the bird flu, Eurodon was also included in the list of infected enterprises. According to the World Organization for Animal Health, in January 2018, eight countries were affected by outbreaks of avian influenza, which killed about 120 million birds worldwide.

Photo: Yuri Chichkov for RBC

At Eurodon, about 200 thousand more goals had to be scored, which, together with the suspension of sales, brought the company more than 2.2 billion rubles. losses. It was from that moment, according

to Vaneev, that a snowball of problems began to grow, eventually engulfing Eurodon.

Alpha has come and gone

Against the background of the troubles with epidemics, there were changes in the ownership structure of Eurodon. Back in 2007, 40%, originally owned by Vaneev, as collateral for a loan in VEB went to Farit Gazizullin, a member of the Board of Directors of Gazprom, who owned the stake through the offshore company Brimstone Investments Limited.

There is a complicated story with this package: as Vaneev stated in one of his interviews, the negotiations on the part of VEB were conducted by the head of the natural resources and construction department of the state bank Ilgiz Valitov, who was later convicted of fraud. He

demanded as a security measure for the loan to transfer 40% of the shares of Eurodon registered in Belize Brimstone Investments Ltd. Vaneev says that he considered the offshore structure of VEB and, after returning the loan, hoped to buy his share back. Answering the question of an RBC journalist in 2016, whether Valitov specially drew up the documents in such a way that Gazizullin, not the bank, was the owner of 40%, Vaneev replied: "I don't know if Gazizullin was right away. I found out about Gazizullin only in 2012. Before that, we did not even think: "Brimstone" and "Brimstone", we thought that this is the structure of the bank. "

In early February 2016, Vaneev learned that Gazizullin sold these 40% shares to A1, the investment division of Alfa Group. Having become a co-owner of the company, A1 filed two lawsuits against Eurodon LLC and one against Vaneev demanding to recognize Eurodon's guarantees for loans from VEB and Rosselkhozbank for 24 billion rubles. Invalid, as they were allegedly issued with violations. In addition, A1 tried to get Vaneev expelled from the co-owners of Eurodon.

The conflict did not last long: A1 did not remain a co-owner of the company for a month and at the beginning of March 2016 sold its 40% to VEB structures (40% of the shares went to VEB Capital, 45% remained with Vaneev, another 15% with Valery Gergiev). "Everyone thought that Gergiev saved me then, but this is not so. My main savior from Alpha is Igor Mikhailovich Rudenya, the current governor of the Tver region," says Vaneev. How exactly Rudenya helped, he does not want to say: "This is no longer interesting to anyone." In numerous interviews, Vaneev called the situation with A1 a raider and said that the business was not taken away from him then only by a miracle.

A1 herself commented on the situation dryly: "We considered Eurodon as a project with a long-term perspective, but as an investment company, upon receiving lucrative offers within the framework of a particular project, we can afford to withdraw from the shareholders at any point in the investment round."

The financial position of the holding after all that had been experienced left much to be desired: according to SPARK, the loss of Eurodon LLC for 2016 exceeded 2 billion rubles. In the conditions of production and sales suspended due to influenza quarantine, Eurodon stopped paying suppliers, who began to massively file claims in court (now Eurodon's debt load to suppliers has reached 1.2 billion rubles). To cope with the situation, Vaneev turned to the main creditor, the VEB Group, for help.

Credit of no confidence

In July 2017, the bank and Vaneev agreed to restructure the company's debt. VEB provided Eurodon with a new stabilization loan for 2.6 billion rubles, for the whole of 2017 exempted the group of companies from repaying the main obligations to VEB, and 2018 and 2019 were defined as a transition period with partial debt repayment, a representative of VEB told RBC. In return for such loyal conditions "in order to strengthen credit security", VEB Capital bought out another 34% at par, plus to the already existing 40% shares. At the same time, operational control and the post of general director had to remain with Vaneev, and under certain conditions of repayment of the debt to VEB, he

received the right to buy out the shares of VEB Capital at par.

Since July 2017, the VEB Group has consolidated 74% of Eurodon LLC (Vaneev retained 11%, Gergiev - 15%) and 74% Eurodon-South (where Vaneev retained 26%). The decision of the founder to give a controlling stake to the lender was difficult, but inevitable: without a stabilization loan, it was impossible to restore the livestock and sales volume.

"It is clear that the volumes that we planned this year will not be. But Eurodon already has such modern production facilities that other manufacturers want to build, - Vaneev commented on the situation in an interview with RBC Rostov-on-Don. - I know there were various rumors that I sold everything here and that I was leaving somewhere. But no, I'm not going anywhere from the Rostov region. I love Don. To see all of our sites with only one turkey, you have to drive 200 km. Where am I going to put this? "

After the transaction, a group of the monitoring commission of VEB Capital began to work at Eurodon, which took part in coordinating payments, tenders and shipments of the company. According to the group, by December 2017, 2.6 billion of the last loan had been taken out, but the business never reached the break-even point. Vaneev argues that such an agreement did not exist: the company was supposed to leave in 2018, which it did by May. One way or another, the founder did not redeem the 34% of shares given to VEB at par value.

#### Murphy's Law

Entering the operating plus did not save Eurodon from credit default - in August 2018, the company for the first time delayed its payment to VEB in the amount of 240 million rubles. This served as a reason to raise the issue of Vaneev's dismissal from the post of general director of the holding and his removal from operational management. "Murphy's Law: Anything that can go wrong has gone wrong. God forbid anyone," sums up Albert Davleev, President of the consulting company.

company Agrifood Strategies.

Photo: Yuri Chichkov for RBC

Vaneev admits that it became a difficult psychological test for him. "The main thing was blamed on me: some managerial mistakes. The wrong strategic decision is yours, that you made a lot of meat. Did I make a lot of meat? So I am the first leader. And now the first leader has been removed, and those who follow me are covered in chocolate," says Vaneev. He is sure: if it were not for the change in VEB's management - in May 2018, Igor Shuvalov was appointed head of the bank instead of Sergei Gorkov - there would be no delay in the loan. On his first visit to Eurodon in February 2018, Gorkov spoke in detail with Vaneev and promised to postpone the August payment until 2019. But they did not have time to formalize these agreements, and the new team under the leadership of Shuvalov did not enter the position, says Vaneev.

Vaneev blames VEB for the fact that after the outbreaks of influenza the sale failed to return to its former tracks: according to him, the bank refused to allocate part of the funds approved under the credit line - of 17.9 billion rubles. 5.2 billion rubles did not reach Eurodon. It is this amount that is important, the entrepreneur insists: it was intended for the construction of the final and most profitable part of the entire turkey project - a meat processing plant and a feed mill. "We didn't ask: give us billions more, as is usually the case in Russia, but they built on what we had, but it still turned out to be unfinished," says Vaneev.

"Eurodon is constantly talking about 5 billion rubles that VEB did not allocate to him and which allegedly played a fatal role. He was going to build new facilities for these 5 billion. But what does this have to do with his already running business? He has already minus, - says a source familiar with the

situation at Eurodon. "The company's core business was like a pyramid scheme, when one loan was blocked by another."

The history of Eurodon is typical for the Russian market, says Ivan Rykov, head of the subcommittee of the Chamber of Commerce and Industry: "Enterprises in the agricultural sector are drowning in debt. Representatives of government agencies make pretentious speeches about the need to save the domestic manufacturer, but government support often turns into a disservice. This is what happened with Eurodon."

#### Default and suspension

VEB on Vaneev's claims of 5.2 billion rubles. answer that given the current financial position of the debtor, they did not find it possible to allocate the last tranche from the pre-approved credit line due to violations of the agreement on the allocation of funds. In addition, there is a list of facilities for the construction of which Eurodon received loans, but did not provide any results. "In August 2015, 43 million and 360 million rubles were allocated for the construction of an administrative building and a meat processing complex. accordingly, but at the construction site, a clear field. The construction of many other objects either did not start or was not completed, and the advances were not returned, "a member of the VEB monitoring commission gives an example in a conversation with RBC.

To these claims, Eurodon responds that the company excluded these objects from the project due to "a difficult financial situation caused by force majeure and the instability of foreign exchange markets", which caused the objects to rise in price.

#### Poultry market in numbers:

5 million tons in carcass weight is the expected volume of poultry meat production in Russia at the end of 2018

253 thousand tons, or 5% of the total market volume, will be the production of turkey meat for the same period

Turkey takes 14% of the poultry market in Europe

1.7 kg per year - consumption of turkey meat per capita in Russia

It takes 3-4 times longer to feed a turkey than a broiler

1.5 times more feed per 1 kg of meat is needed to grow a turkey compared to a broiler

Source: data from Agrifood Strategies consulting company

VEB also believes that the death of a bird is Vaneev's managerial mistake, and not just a consequence of the epidemic. A study carried out by the VEB Monitoring Commission concluded: due to a shortage of funds, since March 2018, the turkey at Eurodon has been fed inadequate amounts of food that does not meet standards, which is why the remaining livestock starved to death. According to the group, from September 12 to October 31, 2018, the commercial turkey population decreased from 2.1 million to zero, the parent herd - from 105 thousand to 72 thousand heads. Vaneev admits with a sigh - they held on as best they could: "Thank you for feeding the bird something in such conditions ..."

From the first delay on the loan in August until the end of October, Vaneev remained at the post of general director. "They told me: you have a hole in your pocket, you don't pay the loan, but they didn't want to understand the reasons. I can go to any enterprise and say that it is being mismanaged, - the businessman gets excited. - I, of course, resisted up to a certain point, connected

people. Many thanks to Viktor Alekseevich Zubkov and Igor Mikhailovich Rudena, these two fought for me to the end ”.

But on October 31, at the general board of directors of Eurodon, it was announced that Vaneev was dismissing from the post of general director and was losing

the right to run a business. According to the parties, the decision was not discussed at the council: VEB, as the main owner, has the right to dismiss and appoint managers at its discretion.

The position of the third co-owner of the turkey business, Valery Gergiev, is still unclear: at the request of RBC, the representative of the artistic director of the Mariinsky said that he was on tour and was not ready to comment on the situation. According to Vaneev, there is a representative of Gergiev on the board of directors of Eurodon, he adheres to neutrality at the voting. "I conclude that Gergiev is on the bank's side," Vaneev concludes gloomily.

"Diamond Meat"

In place of the general director of Eurodon LLC and Eurodon-Yug LLC, VEB has appointed a legal entity - the RK-Project company. According to SPARK, 99% of it belongs to the housing development institute Dom.RF. Earlier, RK-Project, together with related companies, was engaged in the assets of the bankrupt developer SU-155, which also received loans from VEB. RBC did not respond to an interview request from RBC magazine.

VEB's immediate plans include a full audit of the financial condition of Eurodon: for this, the bank plans to attract a consultant from the Big Four. Then VEB intends to develop a strategy for managing the problem asset and, at the same time, look for a buyer for 74% of the business. "The task of the development bank is not to manage enterprises, but to lend to projects," comments in VEB. Any market participant willing to invest in Eurodon can become a buyer - both a poultry producer and other companies that want to diversify their business, adds a representative of VEB.

Now sales of turkeys at Eurodon have been suspended - only the parent stock is left in the poultry houses, which can be used to restore commercial turkey volumes, but not for slaughter. The actual departure of Eurodon from the market will not lead to a significant increase in the price of the final product on the shelves, believes Arkady Levin from Krasnobor. "After the first outbreak of avian influenza, the networks began to treat Eurodon products with great caution, gradually replacing it with another," he says.

Vaneev, when asked about the policy of the new team, replies: "They are in control, all questions are now for them." The scope of his new responsibilities - now Vaneev holds the position of deputy director for development of the holding - has not yet been determined. "They decide the organizational issues, but we agreed that I would help them. Imagine driving 200 km through the fields in the Rostov region, studying, - says Vaneev. "Of course, they would have sorted it out without me, but only in six months, and by that time nothing would have happened." But already with the first operational decision of the new team, Vaneev disagrees: he considers the experiment to revive a commercial herd in small volumes at one site pointless: "There is a parent stock, you inseminate it, and you must immediately transfer it to the site - fill all sites with birds. Because you need a constant circulation, you need to slaughter poultry every day and ship meat to the nets so that there is a business. And one site is what, who needs it? It will be diamond meat. "

Rock the duck

Despite all the troubles, Vaneev does not lose heart: he switched his main forces to his second largest business - the production and sale of duck meat (companies "Donstar" and TD "Utolina"). According to the press service of Eurodon, since the beginning of 2018, the agricultural complex has produced 22 thousand tons of duck and by the end of the year it will produce another 2.2 thousand tons. According

to Vaneev, the company is still working at zero, but in the coming months he hopes to withdraw its a plus.

“The duck is an even more niche market than the turkey, but mark my words, we will now rock the duck, as we once rocked the turkey,” the entrepreneur promises. “Of course, there is a demand for duck: the Russian consumer is already fed up with broiler and pork, and beef has become very expensive. This also explains the rapid rise in popularity of turkey and lamb, ”says Davleev of Agrifood Strategies. According to him, Donstar is today the only industrial producer of duck in Russia with an annual production volume of 20 thousand tons, while the market potential is estimated at 40-60 thousand tons per year.

Together with Vaneev, his two eldest sons are working on the duck project (he has three sons in total) - Alan Vaneev is in charge of the sales department at the Utolina Trade House, Arsen Vaneev works in the commercial service of Donstar. “There is someone to leave it all to,” says the entrepreneur. In addition, the Vaneev group of companies includes the construction business "Metal-Don" and a network of 18 retail stores "Myasnoy degree", which have been operating in the Rostov region since 2012 and now, according to the founder, bring him profit.

Vaneev is not going to leave the country and repeat the case abroad. “The day before yesterday there was a call: an entrepreneur in America found out about me through my acquaintances, a tough man, engaged in organic matter. He says let Vaneev come, I'll help him here to rebuild everything. But who needs me there? I am needed here, ”the businessman smiles. The collapse of the turkey empire did not take away Vaneev's faith in his own strength: “I have a team of reliable guys, we will be with them tomorrow atLet's go out and build a spaceship. You can take everything away from a person: business, money, freedom. But no one will take my brains and my dream away from me ... ”

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