

Retail & Consumer Deals Digest

April 2017



Retail & Consumer Deals Digest provides a consolidated view of sector trends, deal activity and relevant news headlines in the retail & consumer sector.

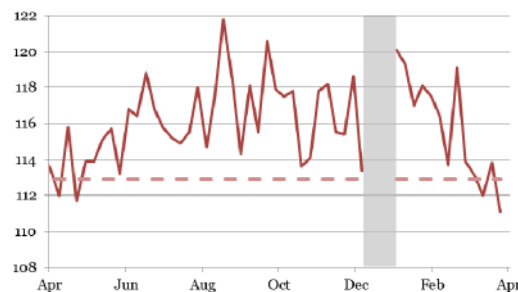
Consumer confidence continues to decline

Consumer confidence fell again this week down 2.4% from last week, to 111.1. This is the lowest since October 2015, falling below the long run average of 112.9 for the first time since February 2016.

According to ANZ Head of Australian Economics David Plank, under-employment in the labour market and the expectation that there will be no significant upturn in wages, at least in the short term, are being reflected in slow household income growth and the continued downward trend in consumer sentiment.

Consumers have been less confident about the outlook for some months, contributing to the weak retail sales experienced in February.

ANZ / Roy Morgan weekly consumer confidence rating



Source: ANZ / Roy Morgan Weekly Consumer Confidence Index

Latest Australian ABS trade results

The latest Australian Bureau of Statistics (ABS) Retail Trade figures show that Australian retail turnover fell 0.1% in February 2017 (seasonally adjusted), following a rise of 0.4% in January 2017 and a fall of 0.1% in December 2016.

The sectors rising in trend terms in the month of February 2017 were: Food retailing (0.3%), cafes, restaurants and takeaway food services (0.1%), and Other retailing (0.1%). Clothing, footwear and personal accessory retailing was relatively unchanged (0.0%). Household goods retailing (-0.1%), and Department stores (-0.1%) fell in trend terms in February 2017.

On a state level, retail sales rose in trend terms in New South Wales (0.1%), Victoria (0.2%), South Australia (0.3%), Western Australia (0.1%), Tasmania (0.1%), the Northern Territory (0.3%), and the Australian Capital Territory (0.1%). Queensland (-0.1%) fell in trend terms in February 2017.

Sources: Australian Bureau of Statistics data, Reserve Bank of Australia



Announced deals in FY2017 YTD and LTM

According to Mergermarket, announced retail deal activity in FY2017 has increased, on both value and volume basis, comparing to the prior comparable period. In FY2017 year to date, 83 deals have been announced for a total value of c.\$7,284m, excluding transactions with undisclosed deal value.

Across the last twelve months, deal volume and values have increased compared to the prior comparable period from 78 (\$5.6m) to 107 announced deals (\$9.7m).

Australia & New Zealand Announced R&C Deals FY2017TD and LTM vs. Prior Year Comparable Period

Deal value (in A\$m)	FY2017TD		PCP		LTM		PCP	
	# of deals	Deal value	# of deals	Deal value	# of deals	Deal value	# of deals	Deal value
\$0 to \$5M	0	0	0	0	0	0	0	0
\$6 to \$10M	7	61	4	37	7	61	6	51
\$11 to \$20M	9	137	11	190	12	176	14	236
\$21 to \$30M	2	49	3	76	6	145	4	97
\$31 to \$50M	3	132	5	192	5	198	5	192
\$51 to \$100M	6	503	7	543	7	580	10	775
\$101 to \$300M	7	1,157	6	954	9	1,544	7	1,228
\$301 to \$500M	5	1,990	1	340	7	2,668	2	750
>\$500M	3	3,255	1	1,386	4	4,313	2	2,239
Subtotal	42	7,284	38	3,718	57	9,685	50	5,568
Undisclosed	41	n/a	22	n/a	50	n/a	28	n/a
Total Announced	83	7,284	60	3,718	107	9,685	78	5,568
Total Completed	49	1,386	55	3,007	71	3,109	73	4,857

Source: Mergermarket; based on announced and completed transactions as at 3 April 2017

Notes: 1) FY2017TD refers to the period 1 July 2016 to 3 April 2017, reflecting the latest available Mergermarket data as at 6 April 2017

2) PCP refers to prior year comparable period

Recently completed / announced deals

- 30 March 2017** – Solomon Lew’s retail group **Premier Investments** has bought a large stake in **Myer** but says it is not currently planning a takeover bid for the department store chain. Premier Investments confirmed on Wednesday that it bought a 10.77% stake in Myer – a \$101m share purchase that sparked a jump of 18% in the value of Myer shares on Monday. The owner of brands including **Smiggle** and **Peter Alexander** put out a brief statement, asserting it’s a “strategic investment” and that “it does not currently intent to make a takeover offer for Myer.”
- 27 March 2017** – Luxury fashion retailer, **Oroton**, has purchased 30% of fast growing online lifestyle accessories business **The Daily Edited** (TDE) for \$4.5m. The deal is made up of cash and group shares with Oroton expecting the investment to be immediately accretive with double-digit EPS accretion forecast for FY18. Oroton said the investment is in line with its strategy of enhanced multi-channel diversification. It’s also part of a play to accelerate the group’s online offering and complement its existing sales channels, by gaining access to TDE’s younger market segment and dedicated customer base.
- 28 March 2017** – Patties Foods Pty Ltd, an Australia-based company engaged in manufacturing and marketing of frozen food products, and a portfolio company of Pacific Equity Partners, Australia-based private equity firm, has agreed to acquire Australian Wholefoods Pty Ltd., an Australia-based company that produces cooked and baked ready meals and delicatessen products, for an undisclosed consideration.
- 13 March 2017** – Platinum Equity, LLC, the US-based global private equity firm, has agreed to acquire Staples New Zealand Ltd, the New Zealand-based company engaged in retailing of office supplies and Staples Australia Pty Limited, the Australia-based company engaged in retailing of office supplies, from Staples Incorporated, the listed US-based company engaged in office supplies retailer selling office products, furniture, computers, and printing and photocopying services, for an undisclosed consideration. The sale is in line with Staples Inc’s plan for long-term growth by focusing primarily on its North American business. Post transaction, the divested business will continue to operate under the Staples brand in Australia and New Zealand for a short period of time until the new corporate brand is created.

Recently completed / announced deals (cont'd)

- **13 March 2017** – Oriens Capital, a New Zealand-based private equity investor, and Pioneer Capital Partners, a New Zealand-based venture capital firm, have acquired a 56% stake in Havelock North Fruit Company (HNFC), a New Zealand-based producer of apples, from Phil Alison, a New Zealand-based private individual having interest in fruits producing companies, for an undisclosed consideration. Pioneer and Oriens have acquired 40.7% and 15.3% stakes in HNFC, respectively. Oriens and Pioneer have acquired the ownership interests of the founder and former managing director Mr. Alison. The acquisition will contribute governance expertise and additional capital, thus enabling HNFC to embark on strengthening its global position. HNFC will be renamed as Rokit Global Limited and Mr. Austin Mortimer, HNFC's acting CEO, will be the new CEO of the renamed company. Rokit Global will continue to operate from its current location at Hawke's Bay.
- **1 March 2017** – Casella Wines Pty Limited, an Australia-based company engaged in manufacturing and distributing wines has agreed to acquire Shaw Family Vintners, an Australia-based producer of wines from the Shaw Family, an Australia-based family having interest in companies engaged in manufacturing wines, for a consideration of AUD 16m.

Also recently in the news

- Swedish fashion retailer, **H&M**, has ramped up its green initiatives and a commitment to use 100% recycled or other sustainably sourced materials by 2030. According to the group's latest sustainability report, H&M has aimed to become climate positive throughout its entire value chain by 2040, and switch to 100% renewable electricity. In 2016, 96% of the company's global electricity in its own operations came from renewable sources. The report also mentions that H&M in 2016 was named the biggest global user of cotton certified by the Better Cotton Initiative. Since the start of the global Garment Collecting initiative in 2013, the H&M group has collected 39,000 tonnes of unwanted textiles. By 2020 the company aims to collect at least 25,000 tonnes of textiles every year.
- Michael Ford has resigned as CEO of **The Good Guys** and will leave the business at the end of April. Richard Murray, **JB Hi-Fi Group** chief executive, made the announcement and also confirmed that Terry Smart will rejoin the group as CEO of The Good Guys. Smart is the former CEO of JB HI-FI having held that position from May 2010 to June 2014 following 10 years as chief operating officer and will report to Murray.
- The owner of **Westfield** shopping centres in Australia and New Zealand says store space across its 39 properties is almost completely occupied. **Scentre Group** chief executive Peter Allen said at the company's annual general meeting that Westfield continues to attract popular brands as part of its tenancy mix. Allen said Westfield's 30 fastest growing tenants in Australia have increased their aggregate number of stores from 151 to 438 in the past five years. Specialty retail sales grew by 2.6% in 2016 at Australian Westfield centres, with growth across most categories.
- Online fashion retailer, **Asos**, has posted a 14% increase in profits for the six months to the end of February to £27.3m. The company saw a 31% increase in sales to £889.2m. UK retail sales rose by 18% and international sales went up by 42%. Sofie Willmott, senior retail analyst at GlobalData, said Asos' broad product range sold on local language and currency platforms, along with its aggressive delivery proposition and responsive pricing, allows it to steal market share from well-established international and local players.
- **Freedom Kitchens** has launched ready-to-assemble kitchens, in a move targeting the competitive DIY market. The new range will be distributed throughout kitchen showrooms within Freedom Furniture stores, developed in response to feedback about the lack of high quality options on the market, according to the company. Freedom also said customers will get a designer service included, with a designer visiting their home for a consult and site check.
- Retail landlord, **Stockland** will expand its Bundaberg retail precinct in Queensland with the official opening of its Kensington centre on 8 April. The \$30m Stockland Kensington retail development, located adjacent to Stockland Bundaberg will be anchored by a full-line, 4,500sqm **Coles** supermarket with an instore bakery, a healthy living section and a gourmet delicatessen featuring a decadent cheese wall. **The Reject Shop** and **Liquorland** will also open.



Source: Inside Retail

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Also recently in the news (cont'd)

- Mid-sized Australian businesses owe \$8 billion in outstanding payments to suppliers, with over \$2bn currently overdue, according to new research released by **American Express**. A culture of delayed or late payments of suppliers is significantly more prevalent in the retail sector compared with other industries, according to the survey of 355 CFOs mid-sized businesses across Australia (\$2m-\$300m), with 38% of retail respondents unable to reconcile their invoices at least every month, compared with 30% of all mid-sized business respondents. Retailers made up 16% of the total survey respondents. At present, mid-sized retailers owe on average \$100k in outstanding supplier payments, with 21% of this overdue.
- **Woolworths** has launched a new luxury skincare range and nutritional ready-to-go meals in separate campaigns both fronted by celebrity names, in evidence of the supermarket giant's grab at health-conscious, budget-savvy consumers. In a saturated marketplace where supermarkets, international names and pharmacy chains all vie for shoppers' cosmetic dollars, the retailer launched a new skincare range, dubbed *voeu*, offered exclusively at its stores and ranging in price from between \$1.50 and \$8.00. Taline MacKenzie, Woolworths product developer, said the retailer focused on offering high quality products that customers can afford.
- **The Thorn Group**, owner of **Radio Rentals**, has confirmed it has been served a class action claim in relation to its home appliance rental unit's "past lending practices" and "unconscionable practices" that has hurt up to 200,000 customers to the tune of up to \$50m. Maurice Blackburn Lawyers principal Ben Slade claims the Thorn Group-owned company's "Rent, Try \$1 Buy" scheme is misleading and has led to customers paying up to seven times the true retail cost of home appliances they have rented.
- **Officeworks** has opened its 164th store in the heart of Adelaide's CBD. The new store features the retailer's full range of office supplies, technology and furniture products, along with an extensive range of Print & Copy services and Mailman parcel delivery service. To mark the opening, the Adelaide CBD team will be donating \$2,000 to Aboriginal and Torres Strait Island student support organisation, Wirltu Yarlur, as well as \$2,000 to homeless community organisation, Hutt Street Centre.
- Hair and beauty salons and retail outlets are the focus of a new **Fair Work Ombudsman** compliance campaign that will target businesses along the east coast of Australia. Fair Work Inspectors will conduct audits of at least 1600 businesses in randomly selected urban and regional areas of Queensland, New South Wales and Victoria. The campaign will be conducted in two phases, with audits to be conducted in waves. Acting Fair Work Ombudsman Michael Campbell said the first phase was already underway and the campaign would take approximately 12 months to complete.
- A regional Victorian manufacturer has secured a major contract to make 395 truck trailers for supermarket giant **Coles** in a development expected to create more than 100 jobs. **MaxiTRANS Industries** says the \$60m deal to build the refrigerated and non-refrigerated trailers at its Ballarat plant is one of the nation's largest contracts of its kind. Chief executive Dean Jenkins said the deal is a "tremendous show of support" by Wesfarmers-owned Coles in Australian regional manufacturing.
- Australia's largest online payment gateway, **eWAY**, which processes over 25% of Australia's eRetail payments, and payments platform, **zipMoney**, launched a strategic partnership on 29 March. The partnership will see the roll out of the zipPay and zipMoney 'buy now, pay later' digital wallets as core offerings for tens of thousands of online retailers in Australia.



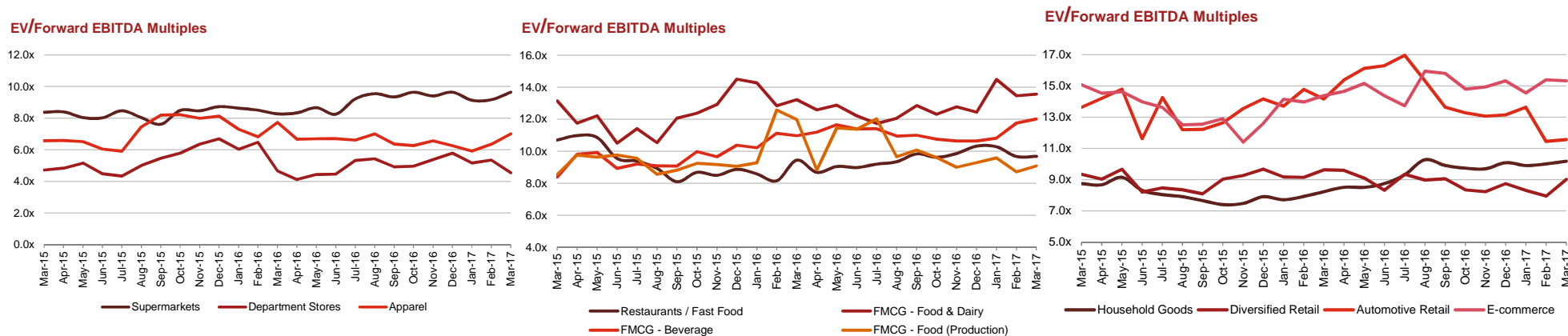
- **Winning Appliances** has recently launched its flagship store in Fortitude Valley, Queensland, inspired by the iconic Flatiron building in New York City, complete with an in-house chef and inspirational merchandising. CEO David Woolcott said that the idea behind the design of the new showroom was to show customers that while Winning Appliances is a 110-year old brand, it's also modern and cutting-edge. The building's interior and exterior were both designed by prominent architecture firm, Elenberg Fraser.
- Luxury Swiss watchmaker, **Rolex**, will open at Sydney Airport's transformed T1 International fashion precinct in the second quarter of 2017. Set in a 130sqm space, the store will be designed with embellished textural glass, metal and bronze detailing. The store exterior will be have an eight-metre façade in keeping with the wider 1,900sqm precinct design. The new Rolex boutique, presented by Swiss Watch Gallery and owned by Asia's leading luxury retail specialist, Valiram, will feature Rolex's high precision timepieces.

Source: Inside Retail

Retail sector multiples (cont'd)

Company	Currency	Share price \$	Mkt cap million	EV million	Net debt / EV	Dividend Yield LTM %	TSR % Mar-17	EV / EBITDA				EV / EBIT				PE						
								Actual		Forecasts		Growth		Actual		Forecasts		Growth		Actual		Forecasts
								LTM	CY2017	CY2018	LTM-17	LTM	CY2017	CY2018	LTM-17	LTM	CY2017	CY2018	LTM-17	LTM	CY2017	CY2018
Apparel / Accessories																						
Premier Investments Limited	AUD	14.27	2,247	2,094	-7%	3.6	6%	13.3x	11.7x	10.3x	13.5%	15.7x	14.0x	12.1x	13.7%	25.0x	18.7x	16.5x				
Billabong International Limited	AUD	1.25	247	433	43%	-	-	9.7x	7.2x	5.7x	30.3%	24.2x	17.1x	11.6x	44.7%	n/m	n/m	16.3x				
RCG Corporation Limited	AUD	1.01	545	599	9%	6.0	-1%	8.3x	6.3x	5.3x	24.8%	11.0x	8.1x	6.7x	28.2%	15.7x	11.4x	9.2x				
Lovisa Holdings Limited	AUD	3.47	364	346	-5%	3.5	-7%	8.6x	7.8x	7.0x	10.6%	10.0x	9.5x	8.7x	7.0%	17.1x	14.1x	13.0x				
Kathmandu Holdings Limited	NZD	1.95	393	442	11%	6.2	-1%	7.3x	6.2x	5.9x	11.3%	8.7x	7.9x	7.4x	8.5%	13.2x	10.4x	9.8x				
Hallenstein Glasson Holdings Limited	NZD	3.47	205	193	-6%	8.9	6%	6.6x	6.0x	6.0x	5.0%	8.7x	7.9x	8.0x	4.5%	14.8x	11.5x	11.7x				
OrotonGroup Limited	AUD	1.61	68	62	-8%	1.9	-4%	9.1x	7.8x	6.6x	17.2%	22.3x	24.8x	n/m	n/a	40.8x	29.1x	18.0x				
Specialty Fashion Group Limited	AUD	0.55	106	93	-13%	-	-15%	7.6x	n/m	n/m	n/m	n/m	n/m	n/m	n/a	29.9x	11.7x	6.8x				
The PAS Group Limited	AUD	0.64	87	75	-17%	8.1	5%	3.3x	2.8x	n/m	n/a	4.9x	3.8x	n/m	n/a	9.5x	6.5x	n/m				
Noni B Limited	AUD	1.56	124	126	1%	-	-2%	18.7x	n/m	n/m	n/a	28.8x	n/m	n/m	n/a	31.3x	n/m	n/m				
Mean								9.2x	7.0x	6.7x	16.1%	14.9x	11.6x	9.1x	17.8%	21.9x	14.2x	12.7x				
Median								8.4x	6.8x	6.0x	13.5%	11.0x	8.8x	8.4x	11.1%	17.1x	11.6x	12.3x				
Department Stores																						
Myer Holdings Limited	AUD	1.21	994	986	-0.8%	5.0	-1%	5.3x	4.5x	4.4x	10.6%	8.3x	8.1x	7.6x	4.6%	15.1x	13.4x	11.7x				
Supermarkets																						
Wesfarmers Limited	AUD	44.44	50,388	55,724	10%	4.5	6%	12.1x	9.5x	9.2x	14.3%	16.2x	12.4x	12.0x	16.3%	23.6x	17.7x	16.5x				
Woolworths Limited	AUD	26.57	34,136	36,175	5%	2.5	4%	10.6x	10.1x	9.5x	5.4%	15.3x	14.4x	13.4x	7.0%	25.6x	21.6x	19.8x				
Metcash Limited	AUD	2.30	2,244	2,467	9%	-	14%	13.0x	6.7x	6.3x	43.6%	17.1x	8.2x	7.8x	48.2%	16.1x	11.2x	10.3x				
Mean								11.9x	8.8x	8.4x	21.1%	16.2x	11.7x	11.0x	23.8%	21.8x	16.8x	15.6x				
Median								12.1x	9.5x	9.2x	14.3%	16.2x	12.4x	12.0x	16.3%	23.6x	17.7x	16.5x				

EV/forward EBITDA multiples (over last 24 months)



Source: PwC calculations based on CapitalIQ data and publicly available information; share prices as at 6 April 2017 market close

Notes: 1) Information from CapitalIQ used in calculations has not been verified or adjusted, unless otherwise noted

2) 2017 and 2018 calendar year forecasts represent consensus estimates for each company

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Retail sector trends

As reported by the ABS, the trend for Australia retail turnover for February 2017 (compared to February 2016) increased by 2.9%:

- **Food retailing:** The seasonally adjusted estimate for Food retailing rose 0.3% in February 2017. By industry subgroup, the trend estimate rose for Supermarket and grocery stores (0.3%), Liquor retailing (0.2%), and Other specialised food retailing (0.2%). The seasonally adjusted estimate rose for Supermarket and grocery stores (0.4%), and Liquor retailing (0.3%) and fell for Other specialised food retailing (-0.2%).
- **Household goods retailing:** The seasonally adjusted estimate for household goods retailing fell 0.4% in February 2017. By industry subgroup, the seasonally adjusted estimate fell for Furniture, floor coverings, houseware and textile goods retailing (-2.5%) and rose for Electrical and electronic goods retailing (0.5%), and Hardware, building and garden supplies retailing (0.3%).
- **Clothing, footwear and personal accessory retailing:** The seasonally adjusted estimate for Clothing, footwear and personal accessory retailing fell 2.5% in February 2017. By industry subgroup, the seasonally adjusted estimate fell for Clothing retailing (-2.9%), and Footwear and other personal accessory retailing (-1.9%).
- **Department stores:** The seasonally adjusted estimate for department stores rose 0.8% in February 2017.
- **Cafes, restaurants and take-away food services:** The seasonally adjusted estimate for cafes, restaurants and takeaway food services was relatively unchanged in February 2017. By industry subgroup, the seasonally adjusted estimate rose for Cafes, restaurants and catering services (0.8%) and fell for Takeaway food services (-1.1%).
- **Other retailing:** The seasonally adjusted estimate for Other retailing rose 0.1% in February 2017. By industry subgroup, the seasonally adjusted estimate fell for Newspaper and book retailing (-3.1%), and Other recreational goods retailing (-1.8%) and rose for Pharmaceutical, cosmetic and toiletry goods retailing (0.8%), and Other retailing n.e.c (0.2%).

Source: Australian Bureau of Statistics data

Contact us

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