

Retail & Consumer Deals Digest

December 2016



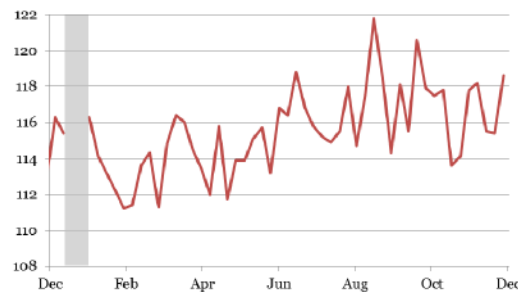
Consumer confidence bounces back to 10 week high

Consumer confidence rebounded a solid 2.8% to 118.6 this week, the highest level in ten weeks and remaining well above its long run average.

According to ANZ Head of Australian Economics Felicity Emmett, Australian households remain optimistic about their finances and more confident in the economy, especially in the near term.

For the RBA, the outlook for spending remains key and ongoing strength in consumer confidence is encouraging. It suggests that the apparent loss of momentum in the economy in Q3 is likely to be temporary, with recent retail sales data suggesting that growth in household spending accelerated into Q4.

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 rose 0.5% in October 2016 (seasonally adjusted), following a rise of 0.6% in September 2016 and a rise of 0.6% in August 2016.

The sectors contributing to the rising trend in the month of October 2016 were: cafes, restaurants and takeaway food services (0.8%), household goods retailing (0.7%), food retailing (0.4%), and other retailing (0.1%). Clothing, footwear and personal accessory retailing (-0.1%) and department stores (-0.2%) fell in trend terms in October 2016.

On a state level, retail sales rose in trend terms in Queensland (0.7%), the Australian Capital Territory (0.6%), Victoria (0.4%), New South Wales (0.3%), South Australia (0.2%), Tasmania (0.2%). The Northern Territory (0.2%) and Western Australia (0.1%) in October 2016.

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

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

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Announced deals in FY2017 YTD and LTM

According to Mergermarket, announced retail deal activity in FY2017 has trailed, on both value and volume basis, comparing to the prior comparable period. In FY2017 year to date, 53 deals have been announced for a total value of c. A\$3,834m, excluding transactions with undisclosed deal value.

Across the last twelve months, deal volume has slightly trailed comparing to the prior comparable period (128 announced deals versus 134 announced deals, \$8.7bn versus \$7.7bn).

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	1	3
\$6 to \$10M	7	60	4	34	11	93	10	81
\$11 to \$20M	3	41	7	130	12	168	16	262
\$21 to \$30M	2	52	4	100	9	233	6	146
\$31 to \$50M	1	48	5	192	6	240	4	156
\$51 to \$100M	4	327	7	527	6	474	15	1,098
\$101 to \$300M	3	375	7	1,290	9	1,524	12	2,209
\$301 to \$500M	4	1,461	1	340	6	2,139	2	750
>\$500M	2	1,470	2	2,142	5	3,838	3	2,995
Subtotal	26	3,834	37	4,755	64	8,709	69	7,700
Undisclosed	27	n/a	29	n/a	64	n/a	65	n/a
Total Announced	53	3,834	66	4,755	128	8,709	134	7,700
Total Completed	27	701	61	2,658	88	4,569	127	5,363

Source: Mergermarket; based on announced and completed transactions as at 5 December 2016

Notes: 1) FY2017TD refers to the period 1 July 2016 to 5 December 2016, reflecting the latest available Mergermarket data as at 5 December 2016

2) PCP refers to prior year comparable period

Recently completed / announced deals

- 12 December 2016** – Pact Group (ASX:PGH) Chairman, Raphael Geminder acquired CVC Private Equity's stake in Green's Foods, the Australian food product business. The acquisition makes Geminder the largest shareholder of Green's Foods. CVC initially purchased its holding in 2001 to turn around the business. CVC decided to sell its equity after investigating interest from Asian Buyers. Green's Foods considered an AUD90m to AUD120m IPO in 2014.
- 12 December 2016** – Woolworths' [ASX: WOW] has entered bilateral talks to sell Ezibuy, the New Zealand-based online retailer, to Direct Group. According to recent reports, other suitors, including Briscoes [NZX: BGR], have dropped out of the process. The report said that talks between Woolworths and Direct Group are advanced. Ezibuy is likely to sell for less than AUD 100m (USD 74m). Woolworths is also negotiating with BP [LON: BP] over its petrol station business,
- 12 December 2016** – Private equity players may be interested in OfficeMax, the Australian subsidiary of OfficeDepot [NASDAQ: ODP]. According to an unsourced report, OfficeDepot has not yet launched a formal offer for OfficeMax and is closely observing the sale process for Staples Australia. Reports stated that Anchorage Capital Partners, Platinum Equity, and Sun Capital Partners are thought to be interested in Staples, and that some bidders may consider merging Staples Australia with OfficeMax. Wesfarmers' [ASX: WES] Officeworks is also likely watching the situation.
- 8 December 2016** – Fantastic Furniture shareholders have approved a proposed \$361 million takeover by Steinhoff Asia Pacific by an overwhelming majority. Fantastic says 99.97 per cent of votes at Wednesday's scheme meeting were cast in favour of accepting a cash payment of \$3.50 per security, which represents a 43 per cent premium on the price prior to the announcement of the bid.
- 5 December 2016** – Bapcor has raised its takeover offer for Hellaby Holdings by 30 cents to \$3.60, bringing it into the independent valuation range and winning increased acceptances to lift total support for its proposal to 40 per cent. Hellaby's independent valuation from Grant Samuel was \$3.60-to-\$4.12 a share.
- 30 November 2016** – Pacific Equity Partners backed pastry manufacturer Patties Foods acquired Leader Foods, the New Zealand-based frozen foods business for an undisclosed sum. Leader Foods has an annual revenue of more than AUD60m.

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Recently completed / announced deals (cont'd)

- **29 November 2016** – Food Revolution Group (ASX:FOD), an Australian listed consumer foods group, has entered into agreements to acquire fast growing health food businesses Healthy Warrior and Future Generation Foods for approximately AUD 48m (USD 35.8m). Healthy Warrior and Future Generation Foods own and distribute branded functional and health food products including Planet Food, Systemax and The Bar Counter through national retailers Coles and Woolworths.
- **23 November 2016** – Quadrant Private Equity has acquired a major stake in Peter Warren Automotive Group, the Australia-based automotive retailer. Peter Warren generates AUD 1bn (USD 734m) in revenue and has more than 1,100 employees. Peter Warren had been in talks with Quadrant since April. Quadrant's investment would enable the business to build scale and to pursue acquisitions.
- **15 November 2016** – Quadrant Private Equity has acquired Cruise Whitsundays and Rottnest Express, two Australian ferry and tour companies, in an attempt to form Experience Australia Group. Quadrant had already acquired a controlling stake in another tourism company, Great Southern Rail, and plans to combine the three companies to create the experiential tourism group. The acquisition value of the three companies amounted to AUD 300m (USD 226.2m). Cruise Whitsundays is the biggest operator of ferry and cruise services in North Queensland with about 700,000 passengers carried per year. Rottnest Express is a Perth-based tour company, ferrying tourists to Rottnest Island for bus tours and cycling adventure services.
- **17 September 2016** – LeapFrog Investments, the Australia-based private equity firm, has acquired undisclosed majority stake in Goodlife Pharmacy, the Kenya-based company operates pharmacies offering pharmaceutical, health care, beauty care, OTC, and personal care products, from Catalyst Principal Partners, the Kenya-based private equity firm, for a consideration of USD 22m. Under LeapFrog's ownership, Goodlife plans to expand its footprint to more than 100 stores over the next five years. LeapFrog will now build on its financial services specialism by diversifying its private equity investments into a closely linked sector – healthcare. Goodlife provides pharmaceuticals and wellness products to over 600,000 customers from 19 different convenient locations across East Africa. Goodlife has over 200 employees.

Also recently in the news

- **7-Eleven** has committed to a Proactive Compliance Deed with the Fair Work Ombudsman, which will see the convenience chain implement a range of measures aimed at stamping out unlawful practices across its franchises. 7-Eleven entered into the deed voluntarily, as part of its ongoing cooperation with the regulator and commitment to transparency through the reform process. The deed includes a multi-million dollar investment into store level technology that centrally records and captures time and attendance records for all employees through biometric (thumbprint) sign-on and sign-off. It also includes the centralising of payroll and implementing oversight and other monitoring measures to ensure payroll non-compliance is more easily able to be identified.
- Retail landlord, **Stockland**, has undertaken its first test case of human robot interaction at a shopping centre in Sydney's west. The property firm said it is aiming to develop further sophisticated applications, which will transform and enhance the in-centre experiences of the 422,000 shoppers who visit one of Stockland's 40 shopping centres every day, such as helping to find a lost child or assist disabled customer. Chip, a 1.7m tall, 100kg social humanoid robot, will take part in a number of interactions with customers and retailers from food sampling to centre way-finding, assisting the elderly customer by carrying their groceries to their car and welcoming customers to the centre.
- **Beroni Group** an Australia-based healthcare products maker, is seeking to raise approximately A\$8.7m in an IPO in Australia. The company is offering up to 17.4m shares at A\$0.5 each and the minimum subscription is to raise A\$6.8m. The indicative market capitalisation at the offer price will be A\$29m at the maximum subscription.
- Surfing retailer **Billabong** has appointed Kim Anderson to its board of directors, confirmed in an announcement. Anderson is currently a non-executive director for online automotive site, **Carsales**, and marketing group, WPPAUNZ (a merger of STW Group and WPP). She also chairs the remuneration committees of both companies and up until early this year was CEO of Reading Room, Inc. Howard Mowlem, chair of the company's HR and remuneration committee steps away from both roles, effective from when Anderson begins her role.
- **Howards Storage World** the privately held Australian retailer of storage goods, is undertaking an assessment of the company's financial conditions for a possible sale of the retail group as a going concern. Howards Storage World runs 59 stores in Australia.

More than 50% of consumers research products online before heading in store to purchase



Source: PwC

Source: Inside Retail

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Also recently in the news (cont'd)

- Menswear retailer, **Peter Jackson** has recently opened its 50th store in Sydney CBD, with the milestone reached after three and a half years since first opening at Rundle Mall in Adelaide. According to IBISWorld, Peter Jackson now lead in market share for 'formal' menswear retailing in Australia at 6.0 per cent, with 'formal' defined as all types of suits, shirts, ties and jackets. Hugo Boss follows with 5.8 per cent market share (IBIS 2016).
- Outdoor apparel retailer, **Kathmandu**, has increased its use of sustainable cotton from 38 per cent to 59 per cent this year, according to a company sustainability report. The Kiwi-based brand said it has set a goal of phasing out conventional cotton completely by 2020. Kathmandu will combine three sustainable cotton initiatives – BCI (Better Cotton Initiative), organic and Fairtrade – to build a flexible fabric sourcing strategy that moves them away from conventional cotton. The Better Cotton Initiative came out of a 'round table' led by the World Wildlife Foundation back in 2005, with the goal of finding more sustainable solutions for farmers and the environment. By 2015, BCI had reached 1.6 million cotton farmers across 21 countries in five continents.
- Fashion brand, **Cos**, has opened its second store in Melbourne at the revamped Chadstone Shopping Centre. The store is set over 415sqm and features the full range of womenswear, menswear and childrenswear collections offered by the brand. Cos, which stands for Collection of Style, is **H&M's** second largest brand, and targets a slightly older consumer with its minimalist aesthetic and higher price points.
- Sporting goods retailer, **Intersport** has opened its first Aussie flagship in the Northern Territory, with the new store in Darwin designed to reflect global trends. Intersport already has 60 stores across Australia but has taken the decision recently to change its approach to customers after undertaking research that identified the benefits of providing highly specialised and selective buying experiences, aimed at particular customer groups rather than product categories.
- **Retail Food Group** is currently evaluating a number of merger and acquisition opportunities across the franchise, coffee and allied beverage, food service and manufacturing industries to add to its ever-growing portfolio. The owner of brands including Donut King, Gloria Jean's Coffees and Crust Gourmet Pizza, will increase its debt by \$40 million provide the extra cash to make the acquisitions. The group said it is also looking at food franchise and coffee-related opportunities across Australia. RFG have also been granted master franchise licenses across Europe, the Middle East and the APAC region.
- Specialty personal care product retailer, **Bath & Body Works**, has opened its first Australian store at Sydney Airport's T2 Domestic Terminal, in partnership with Lagardère Travel Retail. The 100sqm store features the company's range of body products, shower gels, lotions, body fragrance, and candles, and is part of a wider improvement program of the airport.
- Athletic apparel retailer, **Lululemon**, will open its first 'local concept store' in the Southern Hemisphere at Bondi Beach in Sydney before Christmas this year. Set over 125sqm the new store, will be part store and part meeting place, as well as acting as a community hub.
- A focus on all year seasonality and store accessibility has helped menswear specialist retailer, **Retail Apparel Group**, post record sales across its store network ahead of Christmas. The menswear specialist retailer has posted company record sales across its 391 stores with revenue up over 15 per cent during Spring. The strong year-to-date trading follows the group posting record EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) of \$36 million in the 2016 financial year, off the back of the record revenue growth to \$324 million.

- Luxury accessories retailer **Oroton** says its comparable store sales were down eight per cent for the first 17 weeks of this financial year. Oroton Group in September reported a 31 per cent lift in its annual net profit to \$3.4 million for the 2016 financial year.
- The **National Retail Association** (NRA) launched the first day of extended trading hours in south-east Queensland which kicked off at 7am on the 1st of December. NRA CEO Dominique Lamb said the new, relaxed trading hours, a result of the Queensland Industrial Relations Commission handing down its unanimous ruling in October, would add over \$100 million to the Queensland economy each year, and create around 1000 jobs. From the 1st of December, major retailers right across the south-east corner will be free to open from 7am to 9pm, Monday to Saturday.

Source: Inside Retail

'More than ever Retailers need to focus on engaging with consumers at every stage of the buying process.'



Source: PwC

Final Thought: Has Christmas come early?

- A recent Monash Business School and PwC consumer survey found that consumers are looking for a convenient and hassle free shopping experience when purchasing this Christmas.
- Over 80% of consumers were planning on completing their shopping by mid December, primarily to be organised and avoid the last minute Christmas crush. For some retailers this means that the majority of their Christmas trade is already complete.

Over 80% of shoppers will have their Christmas shopping completed by mid December

Source: PwC



- In addition to shopping earlier, over 70% of consumers expect to spend the same or less than last year, particularly on big ticket items
- The survey also found that more than half of consumers are researching products online before heading to the store to purchase.
- Although in-store is still the most preferred purchasing environment, retailers must use this buying behaviour to their advantage, engaging with consumers at the start of their purchasing journey and continuing that relationship through to store.
- Retailers who engage with the consumer at every stage of the buying process (including post purchase) by providing a convenient and tailored shopping experience will be the winners this Christmas.

Over 70% of consumers expect to spend the same or less than Christmas last year

Source: PwC



A great business conversation starts here

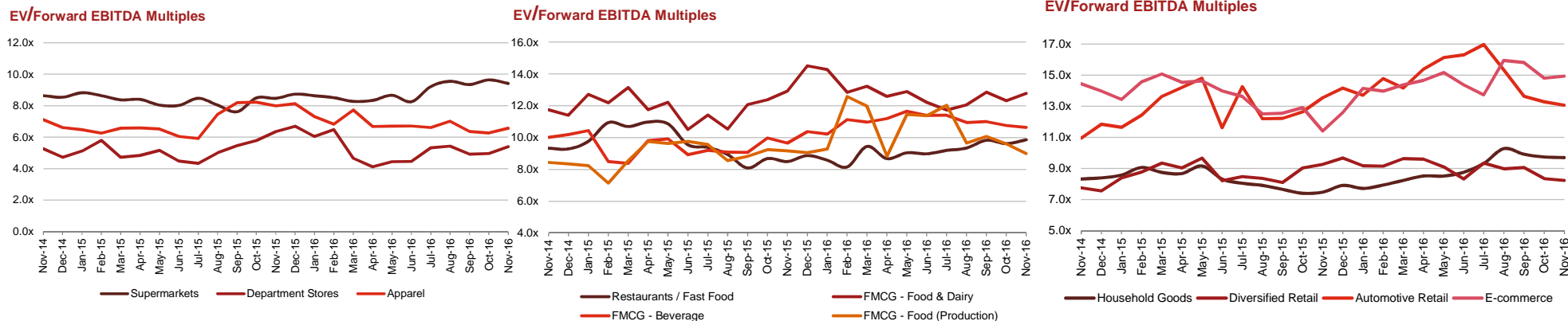
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Retail sector multiples (cont'd)

Company	Currency	Share price \$	Mkt cap million	EV million	Net debt / EV	Dividend Yield LTM %	TSR % Nov-16	EV / EBITDA				EV / EBIT				PE		
								Actual	Forecasts		Growth	Actual	Forecasts		Growth	Actual	Forecasts	
								LTM	CY2016	CY2017	LTM-17	LTM	CY2016	CY2017	LTM-17	LTM	CY2016	CY2017
Apparel / Accessories																		
Premier Investments Limited	AUD	13.26	2,088	1,898	-10%	3.6	-4%	12.0x	11.2x	10.1x	8.9%	14.1x	13.4x	12.1x	7.8%	23.2x	17.3x	15.8x
Billabong International Limited	AUD	1.17	231	416	44%	-	-3%	7.0x	n/m	6.2x	6.4%	13.3x	13.0x	9.9x	16.1%	n/m	n/m	35.7x
RCG Corporation Limited	AUD	1.37	739	748	1%	4.0	-12%	12.2x	10.3x	7.5x	27.7%	15.9x	12.4x	9.4x	29.7%	23.5x	18.2x	14.1x
Lovisa Holdings Limited	AUD	3.31	348	354	2%	2.6	-2%	11.6x	10.3x	9.1x	12.8%	14.5x	12.7x	11.4x	12.6%	23.5x	19.2x	16.4x
Kathmandu Holdings Limited	NZD	1.89	381	418	9%	5.8	-2%	6.9x	6.2x	5.8x	8.5%	8.2x	8.0x	7.4x	5.4%	12.9x	11.0x	10.0x
Hallenstein Glasson Holdings Limited	NZD	2.99	177	163	-9%	10.0	6%	6.3x	5.7x	5.4x	7.7%	8.7x	7.2x	7.2x	10.1%	15.0x	11.6x	10.7x
OrotonGroup Limited	AUD	2.23	91	88	-3%	4.0	2%	8.0x	n/m	5.5x	20.3%	13.9x	n/m	8.5x	28.1%	24.8x	21.9x	14.8x
Specialty Fashion Group Limited	AUD	0.50	95	108	12%	-	-4%	14.0x	3.7x	3.0x	n/m	n/m	13.8x	6.8x	n/a	n/m	23.6x	8.5x
The PAS Group Limited	AUD	0.70	96	88	-9%	7.4	-3%	3.7x	3.6x	3.4x	3.5%	5.2x	5.0x	4.8x	3.8%	9.4x	n/m	7.6x
Noni B Limited	AUD	1.40	109	96	-13%	-	-13%	17.5x	n/m	n/m	n/a	29.6x	n/m	n/m	n/a	24.1x	n/m	n/m
Mean								9.9x	7.7x	6.2x	12.0%	13.7x	10.7x	8.6x	14.2%	19.5x	17.5x	14.9x
Median								9.8x	8.3x	5.8x	8.7%	13.9x	12.6x	8.5x	11.4%	23.3x	18.2x	14.1x
Department Stores																		
Myer Holdings Limited	AUD	1.26	1,031	1,135	9.2%	4.0	9%	6.3x	5.4x	5.2x	10.5%	10.0x	9.8x	9.2x	4.0%	16.0x	13.9x	12.6x
Supermarkets																		
Wesfarmers Limited	AUD	40.38	45,667	52,359	13%	4.6	4%	12.1x	10.1x	9.2x	14.2%	16.5x	13.4x	12.1x	17.0%	23.0x	19.7x	15.0x
Woolworths Limited	AUD	22.91	29,418	33,143	10%	3.4	-6%	9.2x	9.4x	9.2x	0.4%	12.9x	13.2x	13.0x	-0.2%	11.3x	19.6x	19.1x
Metcash Limited	AUD	2.05	2,000	2,224	10%	-	4%	11.7x	6.5x	6.0x	39.2%	15.4x	n/m	7.5x	43.5%	14.3x	11.3x	10.8x
Mean								11.0x	8.6x	8.2x	17.9%	15.0x	13.3x	10.8x	20.1%	16.2x	16.9x	14.9x
Median								11.7x	9.4x	9.2x	14.2%	15.4x	13.3x	12.1x	17.0%	14.3x	19.6x	15.0x

EV/forward EBITDA multiples (over last 24 months)



Source: PwC calculations based on CapitalIQ data and publicly available information; share prices as at 7 December 2016 market close

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

2) 2016 and 2017 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 October 2016 (compared to October 2015) increased by 3.3%:

- **Food retailing:** The seasonally adjusted estimate for Food retailing rose 0.6% in October 2016. By industry subgroup, the seasonally adjusted estimate rose for Other specialised food retailing (0.8%) and Supermarket and grocery stores (0.7%) and fell for Liquor retailing (-0.9%).
- **Household goods retailing:** The seasonally adjusted estimate for household goods retailing rose 0.7% in October 2016. By industry subgroup, the seasonally adjusted estimate rose for Hardware, building and garden supplies retailing (0.5%) and Electrical and electronic goods retailing (1.7%) and fell for Furniture, floor coverings, houseware and textile goods retailing (-0.2%).
- **Clothing, footwear and personal accessory retailing:** The seasonally adjusted estimate for Clothing, footwear and personal accessory retailing fell 0.4% in October 2016. By industry subgroup, the seasonally adjusted estimate fell for Footwear and other personal accessory retailing (-0.4%) and Clothing retailing (-0.4%).
- **Department stores:** The seasonally adjusted estimate for department stores fell 0.4% in October 2016.
- **Cafes, restaurants and take-away food services:** The seasonally adjusted estimate for cafes, restaurants and takeaway food services rose 0.4% in October 2016. By industry subgroup, the seasonally adjusted estimate rose for Cafes, restaurants and catering services (0.2%) and Takeaway food services (0.5%).
- **Other retailing:** The seasonally adjusted estimate for Other retailing rose 0.8% in October 2016. By industry subgroup, the seasonally adjusted estimate rose for Other recreational goods retailing (4.8%), Other retailing n.e.c (0.6%) and Newspaper and book retailing (0.6%) and fell for Pharmaceutical and cosmetic and toiletry goods retailing (-0.2%).

Source: Australian Bureau of Statistics data

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