

# Retail & Consumer Deals Digest

March 2017



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

## Unusually high volatility in consumer confidence

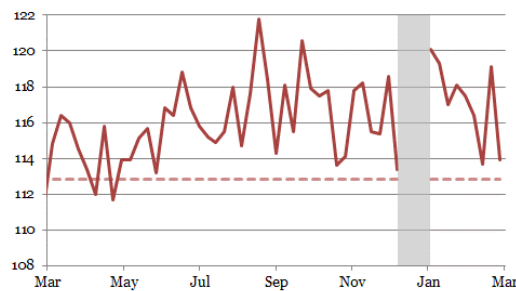
Consumer confidence fell this week to 113.9, down 4.4% and almost entirely reversing the previous week's gain, although it remains above its long run average of 112.9.

According to ANZ Head of Australian Economics David Plank, despite the solid Q4 GDP reading last week, confidence has failed to hold onto the previous week's gains.

The decline appears to reflect the ongoing weakness in wage growth which has likely weighed on consumers' perception of their finances.

Looking forward, however, ANZ believe that consumer confidence is likely to remain resilient, supported by solid economic fundamentals and an accommodative monetary policy stance.

## 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 0.4% in January 2017 (seasonally adjusted), following a fall of 0.1% in December 2016 and a rise of 0.1% in November 2016.

The sectors rising in trend terms in the month of January 2017 were: clothing, footwear and personal accessory retailing (0.6%), Food retailing (0.3%), Household goods retailing (0.2%), Cafes, restaurants and takeaway food services (0.1%), Department stores (0.2%) and Other retailing (0.1%).

On a state level, retail sales rose in trend terms in Victoria (0.4%), the Northern Territory (0.3%), Tasmania (0.3%), South Australia (0.3%), New South Wales (0.2%), Queensland (0.1%), the Australian Capital Territory (0.1%) and Western Australia (0.1%) in January 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, 77 deals have been announced for a total value of c.\$7,259m, excluding transactions with undisclosed deal value.

Across the last twelve months, deal volume and values have increased compared to the prior comparable period from 82 (\$5.8m) to 103 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	6	52	4	37	6	52	6	51
\$11 to \$20M	8	121	11	190	11	160	15	256
\$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	11	830
\$101 to \$300M	7	1,157	6	954	9	1,544	8	1,428
\$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
<b>Subtotal</b>	<b>40</b>	<b>7,259</b>	<b>38</b>	<b>3,718</b>	<b>55</b>	<b>9,660</b>	<b>53</b>	<b>5,843</b>
Undisclosed	37	n/a	20	n/a	48	n/a	29	n/a
<b>Total Announced</b>	<b>77</b>	<b>7,259</b>	<b>58</b>	<b>3,718</b>	<b>103</b>	<b>9,660</b>	<b>82</b>	<b>5,843</b>
<b>Total Completed</b>	<b>45</b>	<b>1,377</b>	<b>53</b>	<b>3,007</b>	<b>68</b>	<b>3,077</b>	<b>77</b>	<b>5,132</b>

Source: Mergermarket; based on announced and completed transactions as at 13 March 2017

Notes: 1) FY2017TD refers to the period 1 July 2016 to 13 March 2017, reflecting the latest available Mergermarket data as at 6 March 2017

2) PCP refers to prior year comparable period

## Recently completed / announced deals

- 28 February 2017** – Advent Private Capital Pty Ltd, the Australia-based private equity firm along with the management of Frosty Boy Australia Pty Ltd, the Australia-based manufacturer and distributor of soft serve and frozen yogurt products, have acquired the company, in a management buyout transaction, for an undisclosed consideration. The transaction will enable Advent Private to enhance its operations in Asia. Post acquisition, Mr. Dirk Pretorius, CEO of Frosty Boy, will remain with the company.
- 28 February 2017** – Freedom Foods Group Limited (ASX: FNP) has agreed to acquire Power Foods International Pty Ltd for a consideration of approximately \$20m. Freedom Foods Group Limited, a listed Australia-based company headquartered in Sydney, is engaged in manufacturing, distribution and marketing of allergen free cereals, nutritional snacks, biscuits, and long life beverages. Power Foods International Pty Ltd., is an Australia-based manufacturer and brand owner in the sports and adult nutrition category, headquartered in Sydney. The acquisition will enable Freedom Foods to expand its brand and category segment offering into the sports and adult nutrition market in Australia/New Zealand, China and South East Asia, leveraging existing retail customer and distribution capabilities. It will provide a unique vertical integration to Freedom Foods expanding dairy nutritional capabilities. It provides an opportunity for Freedom Foods to expand distribution of its product range into this growing channel. Power Foods blending and packing capability will be utilized by Freedom Foods to service a broader category including retailers and other brand owners. The transaction will benefit Power Foods from product development opportunities sourced from the Freedom Foods capabilities in snack food and beverage manufacturing. The acquisition is expected to be accretive to earnings in its first full year of operation. It is expected to provide additional sales and operational efficiencies to Freedom Foods.
- 27 February 2017** – Mead Johnson & Company (NYSE: MJN), the listed US-based company engaged in manufacturing infant formula, flavoured milk, vitamins and supplements for pregnant women, babies and toddlers, has agreed to acquire spray drying and finishing capabilities of Bega Cheese Limited, the listed Australia-based company that process, manufacture and distributes dairy products, for a consideration of \$200m.

## Recently completed / announced deals (cont'd)

- **23 February 2017** – Crescent Capital Partners Management Pty Ltd, an Australia-based private equity firm, has agreed to acquire Tigerlily Swimwear Pty Ltd, an Australia-based company engaged in swimwear and girls apparel business, from Billabong International Limited (ASX: BBG), the listed Australia-based company engaged in marketing, distribution, wholesaling and retailing of apparel, accessories, eyewear, wetsuits and hard goods, for a consideration of \$60m. The sale is in line with Billabong's strategy to simplify its brand portfolio. The proceeds from the sale will be used by Billabong to pay off its debt. Billabong is continuing to consider refinancing options for its \$270m debt load. For the year ended 31 December 2016, Tigerlily has reported revenues of \$30m and is expected to contribute between \$7m and \$8m in EBITDA to Billabong for the 2017 financial year. Billabong had also showed its intention to sell VonZipper and Xcel at its annual general meeting last month. In December 2007, Billabong acquired Tigerlily for \$5.8m. The transaction is subject to conditions precedent, with completion expected before the end of the year 2017.
- **16 February 2017** – Allegro Funds Pty Ltd, an Australia-based private equity firm, has acquired an undisclosed controlling stake in Healthy Life Group Pty Ltd, an Australia-based retailer and wholesale distributor of speciality health food products, from Eu Yan Sang International Limited, a Singapore-based investment holding company engaged in manufacture, processing, distribution and retail of medicine, for an undisclosed consideration.
- **10 February 2017** – An undisclosed bidder has acquired an undisclosed majority stake in Howards Storage World Pty Ltd (HSW), an Australia-based household goods retailer, for an undisclosed consideration. Howards Storage World had filed for insolvency in 2016 due to competition from established players in the retail sector and deteriorating sales and margins in the online sector. On 9, December 2016 an administrator was appointed and the company managed to save 80% of the store network and retained around 160 jobs. Post transaction, 46 of the 58-store network will continue to operate under the terms of the sale. Howards Storage operated 58 stores in Australia.

## Also recently in the news

- Big box retailer, **Costco**, has continued its slow but steady expansion strategy across Australia, after announcing plans for a new Costco in Victoria. Pacific Epping is the fourth Victorian site chosen by Costco in nine years, with a 13,788 sqm store set to facilitate a catchment of one million people. It will be the second Costco in Victoria with a fuel station and will create over 250 full-time and part-time jobs.
- Fast food operator, **Restaurant Brands**, has closed its full year sales up 28 per cent to \$500m, boosted by its acquisition of 42 KFC outlets in Australia. New Zealand operations generated sales of \$400m, up 3.2 per cent, with an additional \$97.2m generated by the Aussie KFC outlets that were acquired in April 2016. The 42 acquired stores contributed \$92.5m (NZD\$97.2m) in total sales in the ten months since acquisition. Total sales of \$25.8m (NZD\$27.1m) were made during the fourth quarter, which is an increase of 8 per cent on a same store basis over the equivalent period last year. Store numbers remained steady at 42 during the quarter.
- The Byron Bay-based e-retailer, **Rue Stiic**, has just secured a major deal with **Anthropologie**, an American clothing retailer that currently operates over 200 stores worldwide featuring a curated assortment of women's apparel and accessories, home furnishings, décor, gifts and found objects, which sees the Byron Bay-based e-retailer now stocked in the lucrative US market. The deal represents a milestone for the brand, which was conceived in 2013 starting with a line of six garments – all in one size – that were initially stocked in shops around Western Australia. Based in Byron Bay and handmade in Bali, Rue Stiic incorporates elements of the coastal Californian – Australian lifestyle.
- **Mares** and **David Lawrence** fashion stores in New Zealand will close and 44 staff will lose their jobs while administrators are still trying to find a buyer for the retailer's remaining Australian stores. The high street fashion retailer has already closed 13 stores in Australia after going into voluntary administration on 1 February.
- Mexican fast-food chain **Guzman y Gomez** (GYG) is set to venture into the drive-thru space, announcing plans to open 38 new restaurants over the next 18 months. GYG said 24 of the new stores will include drive-thru functionality, and an additional four stores will be opened in partnership with Caltex petrol stations in NSW and Victoria. As many as 17 stores will be opened in 2017, across WA, Queensland, NSW and Victoria. Five of the 11 drive-thrus set to open this year will be based in Queensland.



Source: Inside Retail

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## Also recently in the news (cont'd)

- Shopping complex owner **Vicinity Centres** has been trialling a robot to clean its floors but it says there are no plans to replace, but rather complement, its human contract cleaners. An autonomous cleaning machine called the Cleanfix RA 660 Navi has been scrubbing and vacuuming the floors of Vicinity's DFO Homebush centre in Sydney in the past six weeks.
- James Packer's private investment company, **Consolidated Press Holdings**, has sold its stake in fashion retailer, **Noni B**. CPH made the announcement, asserting the divestment comes following the successful integration of the Pretty Girl and Noni B businesses and a strategic refocus. The stake has been acquired by a number of institutions, including companies who bought shares in the capital raising associated with the Pretty Girl acquisition.
- British sports fashion retailer, **JD Sports**, has confirmed it will open doors this April at GPT's Melbourne Central. The 540sqm store will offer a range of leading global brands including Nike, Adidas, Lacoste, Reebok, Ellesse, The North Face and Puma, servicing men, women and children through a wide range of footwear and apparel. JD said it will bring a cross category product offering, from performance to lifestyle, presented in a highly immersive, multi-channel, retail environment, "which has never been seen before on the Australian high street".
- Jewellery retailer, **Michael Hill** has appointed its long-serving chief financial officer, Phil Taylor, as its CEO. Taylor has been with the company since 1987 and was appointed CFO in 2003. In this time frame, the company has grown from 10 stores in New Zealand to 328 stores across two brands and four countries, with annual revenues increasing from \$8m to \$551m. Taylor had been serving as interim chief executive during the company's search for a replacement after Mike Parsell resigned in August last year.
- Supermarket giant **Coles** has announced it will start paying small suppliers within a shorter time frame just weeks before an ombudsman's report into big corporations pay terms. Instead of an average of 30 days, small suppliers will be paid within 14 days from July, Coles announced on 3 March. Coles managing director John Durkan said more than 1,000 suppliers that provide up to \$1m worth of merchandise a year to Coles will have the time they wait for payment shortened.
- Fast food businesses such as **McDonalds** and **KFC** will no longer be able to sponsor foreign workers on temporary visas unless they can prove a specific need, the federal government has announced. As Immigration Minister Peter Dutton announced that Australian workers, particularly young Australians, must be given priority. Dutton has ended the Fast Food Industry Labour Agreement, introduced by the Gillard government in 2012, which allowed hundreds of foreign workers to take jobs at fast food outlets across Australia. However individual businesses will still be able to make requests under normal labour agreement arrangements to ensure that exceptional circumstances can be considered.



- International off-price retailer, **TK Maxx** has confirmed it is coming to Australia in April this year. TK Maxx will convert all 35 existing **Trade Secret** stores to TK Maxx from April 2017, with a handful of new locations also planned for opening throughout the year. Both TK Maxx, TJ Maxx and Trade Secret are operated by The TJX Companies, Inc., which is a leading off-price retailer of apparel and home fashion in the U.S. and worldwide, headquartered in the U.S. and operating over 3,800 stores around the world.
- Emma Mulligan, head of marketing Oceania for **Puma** says customisation represents a prime opportunity to build relationships with customers that helps clinch sales in sports retailing. The sports chain has recently embarked on a campaign that allows customers to customise Puma football boots with instore artist Adrian Doyle at select **Rebel Sport** locations. Doyle has exhibited extensively around Australia, has painted many collaborative murals around Melbourne with the 'Blender Crew', runs many art related projects from his home base the 'Blender Studios' off Franklin Street in Melbourne, and set up the Napier Crew – a Street art production house focused on youth.
- Department store giant, **David Jones**, has unveiled its 'new look' store in a south western Sydney's Macarthur Square Shopping Centre. The store opens as part of the centre's multi-million dollar refurbishment and features DJs internationally awarded contemporary design 'with a refreshed approach to visual merchandising and premium fixtures and finishes'.

Source: Inside Retail

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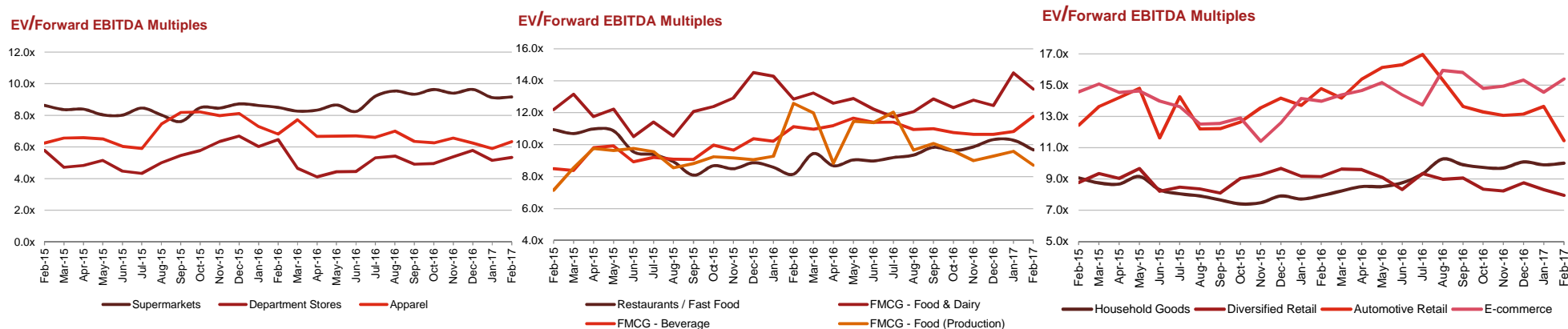




## Retail sector multiples (cont'd)

Company	Currency	Share price \$	Mkt cap million	EV million	Net debt / EV	Dividend Yield LTM %	TSR % Feb-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	CY2017
<b>Apparel / Accessories</b>																				
Premier Investments Limited	AUD	13.38	2,106	1,917	-10%	3.6	1%	12.1x	10.5x	9.4x	13.1%	14.2x	12.7x	11.2x	12.5%	23.4x	17.2x	15.3x		
Billabong International Limited	AUD	1.25	247	433	43%	-	-13%	9.7x	7.6x	6.1x	25.9%	24.2x	18.6x	13.8x	32.5%	n/m	n/m	16.3x		
RCG Corporation Limited	AUD	1.12	606	660	8%	5.4	-16%	9.1x	6.9x	5.8x	24.8%	12.1x	8.9x	7.4x	28.2%	17.5x	12.7x	10.3x		
Lovisa Holdings Limited	AUD	3.60	378	360	-5%	3.3	5%	8.9x	8.1x	7.3x	10.6%	10.4x	9.9x	9.1x	7.0%	17.8x	14.6x	13.5x		
Kathmandu Holdings Limited	NZD	1.95	393	430	9%	5.6	5%	7.1x	6.0x	5.7x	11.4%	8.5x	7.7x	7.2x	8.2%	13.3x	10.4x	9.7x		
Hallenstein Glasson Holdings Limited	NZD	3.36	199	184	-8%	8.9	2%	7.1x	5.8x	5.8x	10.4%	9.8x	7.6x	7.6x	13.6%	16.8x	11.2x	11.3x		
OrotonGroup Limited	AUD	1.51	61	58	-5%	6.0	-11%	5.3x	3.7x	2.8x	37.1%	9.2x	23.6x	n/m	n/a	16.8x	8.4x	7.4x		
Specialty Fashion Group Limited	AUD	0.55	105	92	-13%	-	16%	7.5x	n/m	n/m	n/m	n/m	n/m	n/m	n/a	29.7x	11.6x	6.7x		
The PAS Group Limited	AUD	0.66	90	77	-16%	7.9	-10%	3.4x	2.9x	n/m	n/a	5.0x	3.9x	n/m	n/a	9.7x	6.7x	n/m		
Noni B Limited	AUD	1.67	133	134	1%	-	7%	20.0x	n/m	n/m	n/a	30.8x	n/m	n/m	n/a	33.5x	n/m	n/m		
<b>Mean</b>								<b>9.0x</b>	<b>6.4x</b>	<b>6.2x</b>	<b>19.0%</b>	<b>13.8x</b>	<b>11.6x</b>	<b>9.4x</b>	<b>17.0%</b>	<b>19.8x</b>	<b>11.6x</b>	<b>11.3x</b>		
<b>Median</b>								<b>8.2x</b>	<b>6.4x</b>	<b>5.8x</b>	<b>13.1%</b>	<b>10.4x</b>	<b>9.4x</b>	<b>8.4x</b>	<b>13.1%</b>	<b>17.5x</b>	<b>11.4x</b>	<b>10.8x</b>		
<b>Department Stores</b>																				
Myer Holdings Limited	AUD	1.16	949	1,053	9.9%	4.3	0%	5.9x	4.8x	4.7x	12.1%	9.2x	8.6x	8.1x	6.7%	14.7x	11.6x	10.9x		
<b>Supermarkets</b>																				
Wesfarmers Limited	AUD	43.66	49,377	54,713	10%	4.5	6%	11.9x	9.3x	9.0x	14.6%	15.9x	12.1x	11.7x	16.6%	23.2x	17.4x	16.2x		
Woolworths Limited	AUD	26.07	33,494	35,533	5%	2.6	2%	10.4x	9.9x	9.3x	5.5%	15.0x	14.0x	13.1x	7.2%	25.1x	21.2x	19.4x		
Metcash Limited	AUD	2.18	2,127	2,350	9%	-	-	12.4x	6.4x	6.0x	43.2%	16.3x	7.9x	7.5x	47.6%	15.2x	11.5x	9.9x		
<b>Mean</b>								<b>11.5x</b>	<b>8.5x</b>	<b>8.1x</b>	<b>21.1%</b>	<b>15.7x</b>	<b>11.3x</b>	<b>10.7x</b>	<b>23.8%</b>	<b>21.2x</b>	<b>16.7x</b>	<b>15.1x</b>		
<b>Median</b>								<b>11.9x</b>	<b>9.3x</b>	<b>9.0x</b>	<b>14.6%</b>	<b>15.9x</b>	<b>12.1x</b>	<b>11.7x</b>	<b>16.6%</b>	<b>23.2x</b>	<b>17.4x</b>	<b>16.2x</b>		

## EV/forward EBITDA multiples (over last 24 months)



Source: PwC calculations based on CapitalIQ data and publicly available information; share prices as at 9 March 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 January 2017 (compared to January 2016) increased by 3.2%:

- **Food retailing:** The seasonally adjusted estimate for Food retailing rose 0.2% in January 2017. By industry subgroup, the seasonally adjusted estimate rose for Other specialised food retailing (1.2%) and Supermarket and grocery stores (0.2%) and fell for Liquor retailing (-0.1%).
- **Household goods retailing:** The seasonally adjusted estimate for household goods retailing rose 1.4% in January 2017. By industry subgroup, the seasonally adjusted estimate rose for Electrical and electronic goods retailing (2.4%), Hardware, building and garden supplies retailing (1.1%), and Furniture, floor coverings, houseware and textile goods retailing (0.5%).
- **Clothing, footwear and personal accessory retailing:** The seasonally adjusted estimate for Clothing, footwear and personal accessory retailing fell 0.4% in January 2017. By industry subgroup, the seasonally adjusted estimate fell for Clothing retailing (-0.4%) and Footwear and other personal accessory retailing (-0.4%).
- **Department stores:** The seasonally adjusted estimate for department stores rose 0.2% in January 2017.
- **Cafes, restaurants and take-away food services:** The seasonally adjusted estimate for cafes, restaurants and takeaway food services rose 1.1% in January 2017. By industry subgroup, the seasonally adjusted estimate rose for Takeaway food services (1.6%) and Cafes, restaurants and catering services (0.7%).
- **Other retailing:** The seasonally adjusted estimate for Other retailing rose 0.1% in January 2017. By industry subgroup, the seasonally adjusted estimate rose for Other retailing n.e.c (1.5%) and Other recreational goods retailing (0.5%), and fell for Pharmaceutical and cosmetic and toiletry goods retailing (-1.4%) and Newspaper and book retailing (-0.5%).

Source: Australian Bureau of Statistics data

## Contact us

If you would like to discuss any of the information in this newsletter, please contact one of our Deals Retail and Consumer specialists:



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