

# Retail & Consumer Deals Digest

October 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 picks up modestly

Consumer Confidence dipped during September but rose modestly in mid October to 113.8. The long run average remains at 112.9.

This recent strengthening in consumer confidence is somewhat driven by strong jobs growth and a better investment outlook. Despite this, we see the continuing negative impact of concerns around household expenses (electricity / petrol), high household debt and low wage growth on confidence.

As noted last month, wage growth in line with improvements in the labour market are necessary before any significant uptrend in confidence will be seen. (ANZ Senior Economist, Felicity Emmett).

## 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 (-0.6%) in August 2017 (seasonally adjusted), which follows a fall of 0.2% in July 2017 and a rise of 0.2% in June 2017.

The following industries rose in trend terms in August 2017: Other Retailing (0.5%), Clothing, Footwear and Personal Accessories Retailing (0.5%), and Cafes Restaurants and Takeaway Food Services (0.1%). Food Retailing was relatively unchanged. Department stores (-0.6%) and Household Good Retailing (-0.1%) fell in trend terms in August 2017.

The following states and territories rose in trend terms in August 2017: New South Wales (0.1%), Victoria (0.1%), Western Australia (0.1%), Tasmania (0.1%), and the Northern Territory (0.1%). Queensland and the Australian Capital Territory were relatively unchanged (0.0%). South Australia (-0.1%) fell in trend terms in August 2017.

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



## Announced deals in FY2018 YTD and LTM

According to Mergermarket, announced retail deal activity in FY2018 has decreased, on both value and volume basis, comparing to the prior comparable period. 26 deals to the value of \$1.1bn were announced in the FY2018 financial year. In FY2017 year to date, 35 deals had been announced for a total value of \$2.9bn.

Across the last twelve months, deal volume and values have increased compared to the prior comparable period from 97 (\$6.9bn) to 119 announced deals (\$9.5bn).

## Australia & New Zealand Announced R&C Deals FY2018TD and LTM vs. Prior Year Comparable Period

Deal value (in A\$m)	FY2018TD		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	4	35	5	41	10	85	8	68
\$11 to \$20M	4	58	4	53	16	243	14	210
\$21 to \$30M	4	95	2	47	8	197	8	197
\$31 to \$50M	1	35	0	0	5	212	5	173
\$51 to \$100M	1	80	3	266	7	569	7	569
\$101 to \$300M	1	120	3	507	6	1,007	10	1,727
\$301 to \$500M	0	0	2	745	7	2,561	4	1,423
>\$500M	1	650	2	1,470	5	4,657	3	2,528
<b>Subtotal</b>	<b>16</b>	<b>1,073</b>	<b>21</b>	<b>3,129</b>	<b>64</b>	<b>9,531</b>	<b>59</b>	<b>6,895</b>
Undisclosed	10	n/a	14	n/a	55	n/a	38	n/a
<b>Total Announced</b>	<b>26</b>	<b>1,073</b>	<b>35</b>	<b>3,129</b>	<b>119</b>	<b>9,531</b>	<b>97</b>	<b>6,895</b>
<b>Total Completed</b>	<b>14</b>	<b>857</b>	<b>34</b>	<b>2,892</b>	<b>89</b>	<b>6,158</b>	<b>91</b>	<b>5,913</b>

Source: Mergermarket; based on announced and completed transactions as at 9 October 2017

Notes: 1) FY2018TD refers to the period 1 July 2017 to 9 October 2017, reflecting the latest available Mergermarket data as at 13 September 2017  
2) PCP refers to prior year comparable period

## Recently completed / announced deals

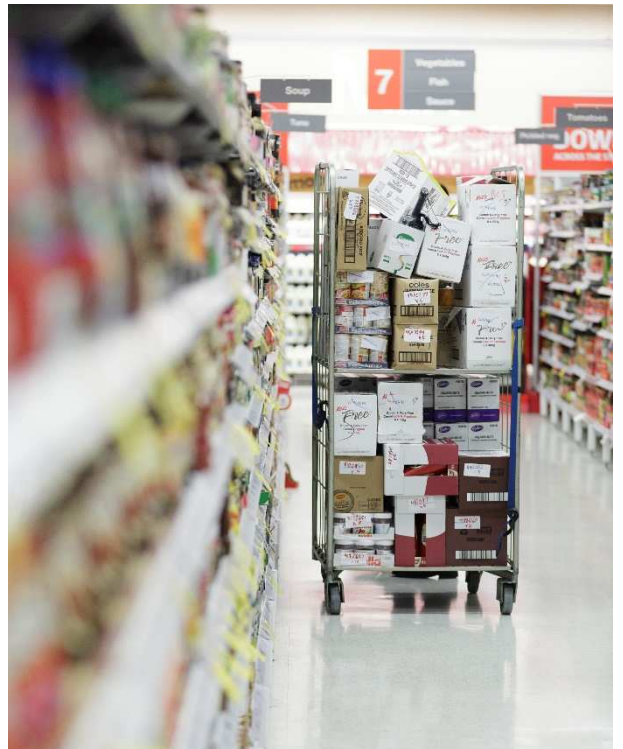
- **5 October 2017** – Allegro Funds Pty Ltd, an Australia-based private equity firm, has acquired Everest Foods Pty Ltd, an Australia-based manufacturer of ice cream and other frozen desserts, for an undisclosed consideration.
- **29 September 2017** – Megmilk Snow Brand Co. Ltd., the listed Japan-based company engaged in the manufacturing and sales of dairy products, has acquired a 90% stake in Udder Delights Group Pty Ltd, the Australia-based company engaged in the manufacture and sales of white mould and blue mould cheese, for a total consideration of AUD 14m (USD 10.97m). Megmilk Snow Brand and its wholly-owned subsidiary, Snow Brand Australia Pty. Ltd., will each spend AUD 7m (USD 5.49m) to acquire 45% of the target. The enterprise value of the transaction is AUD 15.56m (USD 12.2m). This transaction will allow Megmilk Snow Brand to strengthen its mould cheese business in Australia. Post transaction, Megmilk Snow Brand will own a 90% stake in Udder Delights Group.
- **25 September 2017** – Kuokai Investments, a Taiwan-based investment holding firm, has acquired Hunter Valley Wines Pty Ltd (Iron Gate Estate), an Australia-based vineyard and wine making company, from Mr. Roger Lilliott, an Australia-based private investor, for a minimum consideration of AUD 6.5m (USD 5.17m).
- **22 September 2017** – Anheuser-Busch InBev NV, a Belgium-based brewing company engaged in producing, marketing, distributing and selling beer, has acquired 4 Pines Brewing Company, an Australia-based beer company, for an undisclosed consideration. Anheuser-Busch's expertise and global resources will enable 4 Pines to further expand its operations domestically, as well as internationally. Post-transaction, 4 Pines will be wholly owned by Anheuser-Busch InBev and will be a part of ZX Ventures, a US-based venture capital arm of Anheuser-Busch InBev NV. The management team of 4 Pines will be retained and it will continue to operate from its Brookvale and Manly breweries.
- **21 September 2017** – IG Design Group plc, through its subsidiary, Artwrap Pty Ltd has agreed to acquire Biscay Greetings Pty Ltd for a consideration of AUD 9m (USD 7.1946m), representing 2.7x EBITDA. IG Design Group plc is a listed UK-based designer and manufacturer of greetings products and film and television based licensed stationery, headquartered in Eversholt. Artwrap Pty Ltd is an Australia-based company that supplies catalogue and private label greeting cards, gift wrap, Christmas crackers, stationery and party supplies, headquartered in Clayton.

Source: Mergermarket

## Also recently in the news

- **Jaguar Land Rover** have opened their first Australian retail store experience in Westfield Bondi Junction. Customers can 'build' their cars with electronic displays and there is a full range of vehicles available for immediate test drive. The store is part of the automotive brands response to shifting market trends and buyer demands which are driving more customer centric ways of experiencing brands.
- A recent Dun & Bradstreet survey has shown that the retail sector is not optimistic about the upcoming December quarter. Optimism is down 42% on last year and 67% on two years ago. Trends affecting confidence are reported to be low consumer confidence, large mortgages and high rental payments, political uncertainty and the impacts of market disruption and international competition.
- The UK trial of three former **Tesco** executives has commenced. They are accused of fraud by abuse of position and false accounting between February 2014 and September 2014. Tesco was investigated after it publically announced a GBP 250 million overstatement of profit. This caused the company's shares to fall 12% which had a value of GBP 2 billion. The proposed fraud was exposed by two whistle blowers working under the defendants who alluded to Tesco's performance based remuneration package and culture that frowned upon employees who failed to meet targets.
- Inditex Group (parent company of **Zara**) has reported a sales increase of 11.5% the first half of the financial year translating to first half net profit of Euro 1.4 billion. The Group has undertaken significant capital investment over the past year (estimated at Euro 1.5 billion) in opening, refurbishing and renovating its vast store network, in addition to modernising facilities and logistics support.
- **Starbucks** has closed its online store in the US where it sold coffee, syrups, mugs and other merchandise. The closure comes as many major American retailers are investing heavily in their e-commerce platforms. **Starbucks** are however focusing on customer interaction through their mobile app implementing a 'digital fly wheel strategy' to make the app more sticky. Chairman Howard Schultz told investors earlier this year that "Every retailer that is going to win in this new environment must become an experimental destination. Your product and services, for the most part, cannot be available online and cannot be available on Amazon."
- **Australia Post** have launched a service to customers in metro Melbourne, Sydney and Brisbane that offers free shipping on eligible purchases from c40 of Australia's largest retailers. Shoppers need to sign up to **Shipster** a monthly subscription service and spend over \$25 in any transaction. The subscription fee has been discounted until 1 January 2018 in a move which is viewed as a response Amazon's impending launch.
- **Foodland**, an independent Australian supermarket chain, is the top performer among the big five supermarkets in a customer satisfaction survey undertaken by Roy Morgan Research. The study also shows that **Coles** is behind **Woolworths** on customer loyalty. However, in the same period, **Coles** has increased their share of customer spend (by 2.9%) whereas **Woolworths** fell (-0.5%).
- Since 2014, **Domino's** has returned \$5.4 million of underpaid wages and superannuation to its franchisee staff. In their most recent audit, it was discovered that only one store out of 666 has underpaid staff.
- Daigou is a growing channel of commerce in which overseas residents purchase goods outside of China for a customer in mainland China at a significantly lower price. **AuMake** is the first Australia based daigou company to list on the ASX. They estimate that there are approximately 40,000 Chinese daigou living in Australia who have a potential reach to 50 million customers in mainland China.

Source: Inside Retail



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

- **Irexchange** is a tech start-up set on challenging the incumbent wholesale distribution model in Australia. The platform, which services independent food and liquor retailers, has partnered with DHL and services large independent groups to single store retailers from four distribution centres. **Irexchange** uses technology to eliminate the high cost structures of wholesalers and passes on the cost and efficiency benefits to independent retailers to enable them to compete with the major retailers e.g. Coles and Woolworths.
- **Motorcycle Holdings** has just announced the acquisition of **Cassons** (an accessories and parts business) for \$123.2 million. The strategic move seeks to increase the scale of Motorcycle Holding's existing retail business and provide opportunities to improve margin through consolidating distribution networks. Cassons reported total FY17 revenue of \$76.5 million boasting total sales for the combined entities to c\$310m and EBITDA of c\$30m.
- Administrators have been appointed to **Fineline Home Products Pty Ltd** (trading as **Moss River**). Since the appointment, three stores have been closed in SA, VIC and NSW. The administrators have called for expressions of interest in the business and assets, and until a buyer is found they continue to trade online and instore.
- **Restaurant Bands NZ** reported a 41% increase in its 2<sup>nd</sup> quarter sales driven by expansion in Australia and Hawaii. On a same store basis, sales rose by 6.7%. Internationally, the group now owns stores under the brands **KFC**, **Starbucks Coffee**, **Taco Bell** and **Pizza Hut**.
- The Australian Small Business and Family Enterprise Ombudsman has written to **Amazon** to remind them of their obligation, under Australian law, to treat small businesses fairly. While Amazon presents increased competition for small businesses, **Amazon Marketplace** also presents an opportunity for them to expand their customer base and accelerate sales.
- **Toys 'R' Us** had filed for Chapter 11 bankruptcy protection in the US and Canada to allow for the restructure of its finances which are under pressure from billions of dollars of debt. Management has confirmed that its c1,600 worldwide stores will continue to trade as normal.
- Garry Hounsell (former Spotless Group Chairman) has been nominated as the new Chairman of **Myer**. He will sit as deputy-chairman until the retirement of Paul McClintock from the Myer board at the AGM in November. The announcement comes after the retail chain reported a fall in sales and profit in FY17.
- **Myer** will trial RFID (radio frequency identification) technology in one store, with a view to full rollout over FY18. RFID technology uses radio frequency to track tags attached to items and has been effective in helping stores combat shrinkage.
- Ahead of the 2018 Commonwealth Games, **Lagardere Travel Retail** has started to upgrade the Gold Coast Airport stores and, as well as introducing new concessions, they have recently unveiled a new concept store '**Out of Australia**'.
- **Amazon** has been ordered to pay EURO 250 million (A\$374 million) back in taxes to the EU following a ruling by the EU Commission. The Commission ruled that Luxemburg had allowed **Amazon** to channel profits into the country to avoid paying tax.

Source: Inside Retail



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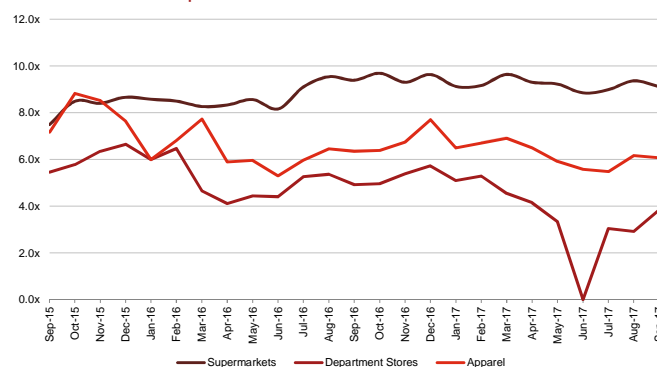


## Retail sector multiples (cont'd)

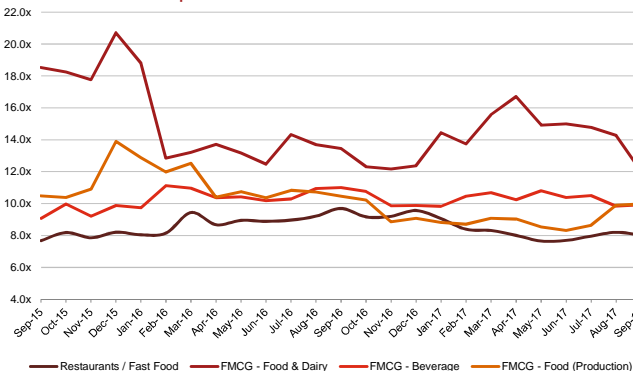
Company	Currency	Share price \$	Mkt cap million	EV million	Net debt / EV	Dividend Yield LTM %	TSR % Sep-17	EV / EBITDA				EV / EBIT				PE			
								Actual		Forecasts		Actual		Forecasts		Actual		Forecasts	
								LTM	CY2017	CY2018	LTM-17	LTM	CY2017	CY2018	LTM-17	LTM	CY2017	CY2018	
<b>Apparel / Accessories</b>																			
Premier Investments Limited	AUD	12.81	2,021	2,012	0%	4.1	3%	12.9x	11.4x	10.4x	11.3%	15.4x	13.6x	12.4x	11.4%	23.0x	17.5x	15.6x	
Billabong International Limited	AUD	0.57	112	260	57%	-	-31%	5.2x	n/m	n/m	n/a	9.9x	n/m	n/m	n/a	n/m	n/m	16.2x	
RCG Corporation Limited	AUD	0.80	431	491	12%	7.5	-8%	6.4x	4.8x	5.6x	7.4%	8.9x	8.9x	8.0x	5.3%	13.2x	10.8x	10.6x	
Lovisa Holdings Limited	AUD	5.22	548	535	-2%	3.4	16%	11.4x	11.0x	9.9x	7.3%	12.9x	12.6x	11.6x	5.4%	21.3x	19.5x	16.8x	
Kathmandu Holdings Limited	NZD	2.38	481	488	1%	5.5	3%	7.2x	6.8x	6.4x	6.0%	8.6x	8.5x	8.0x	3.5%	14.0x	12.3x	11.6x	
Hallenstein Glasson Holdings Limited	NZD	3.35	197	185	-7%	9.4	2%	6.0x	5.7x	5.6x	3.5%	7.8x	7.5x	7.4x	3.1%	13.4x	11.2x	10.9x	
Oroton Group Limited	AUD	0.75	31	37	15%	-	-1%	n/m	14.4x	9.8x	n/a	n/m	n/m	n/a	n/m	n/m	n/m	13.8x	
Specialty Fashion Group Limited	AUD	0.29	55	63	13%	-	-10%	2.3x	n/m	n/m	n/m	13.6x	n/m	n/m	n/a	n/m	26.1x	8.1x	
The PAS Group Limited	AUD	0.45	62	57	-9%	9.1	-1%	3.0x	2.4x	n/m	n/a	5.1x	3.5x	n/m	n/a	9.5x	5.4x	n/m	
Noni B Limited	AUD	2.18	174	169	-3%	1.8	-3%	9.8x	6.4x	5.2x	37.1%	18.1x	9.8x	7.9x	51.8%	30.4x	16.8x	12.4x	
<b>Mean</b>								<b>7.1x</b>	<b>7.9x</b>	<b>7.5x</b>	<b>12.1%</b>	<b>11.2x</b>	<b>9.2x</b>	<b>9.2x</b>	<b>13.4%</b>	<b>17.8x</b>	<b>15.0x</b>	<b>12.9x</b>	
<b>Median</b>								<b>6.4x</b>	<b>6.6x</b>	<b>6.4x</b>	<b>7.4%</b>	<b>9.9x</b>	<b>8.9x</b>	<b>8.0x</b>	<b>5.4%</b>	<b>14.0x</b>	<b>14.6x</b>	<b>12.4x</b>	
<b>Department Stores</b>																			
Myer Holdings Limited	AUD	0.75	616	729	15.5%	6.7	8%	4.2x	3.7x	3.8x	6.1%	6.7x	7.0x	7.3x	-4.3%	10.1x	9.2x	9.4x	
<b>Supermarkets</b>																			
Wesfarmers Limited	AUD	40.97	46,453	50,853	9%	5.4	-2%	9.9x	9.0x	8.9x	5.6%	12.7x	11.7x	11.5x	4.8%	18.2x	16.1x	15.8x	
Woolworths Limited	AUD	24.86	32,314	34,785	6%	3.4	0%	10.2x	9.9x	9.2x	5.2%	14.7x	14.3x	13.1x	6.2%	24.6x	21.0x	18.6x	
Metcash Limited	AUD	2.48	2,420	2,522	4%	1.8	-4%	11.0x	6.8x	6.6x	29.1%	13.7x	8.2x	7.9x	31.4%	14.5x	11.9x	11.3x	
<b>Mean</b>								<b>10.4x</b>	<b>8.6x</b>	<b>8.2x</b>	<b>13.3%</b>	<b>13.7x</b>	<b>11.4x</b>	<b>10.8x</b>	<b>14.1%</b>	<b>19.1x</b>	<b>16.3x</b>	<b>15.3x</b>	
<b>Median</b>								<b>10.2x</b>	<b>9.0x</b>	<b>8.2x</b>	<b>5.6%</b>	<b>13.7x</b>	<b>11.7x</b>	<b>11.5x</b>	<b>6.2%</b>	<b>18.2x</b>	<b>16.1x</b>	<b>15.8x</b>	

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

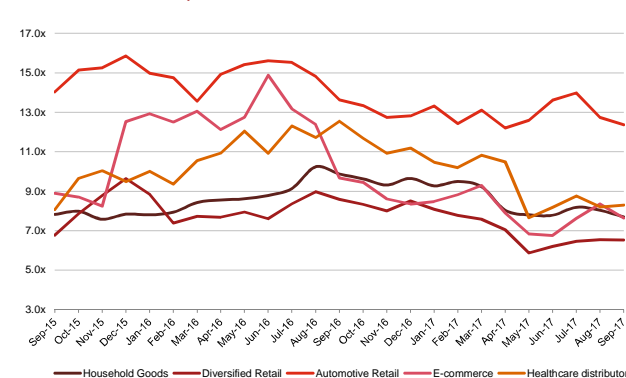
EV/Forward EBITDA Multiples



EV/Forward EBITDA Multiples



EV/Forward EBITDA Multiples



Source: PwC calculations based on CapitalIQ data and publicly available information; share prices as at 6 October 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 Australian retail turnover for August 2017 (compared to August 2016) increased by 2.8%:

- **Food retailing:** The seasonally adjusted estimate for Food retailing fell 0.6% in August 2017. By industry subgroup, the estimate fell for Supermarket and grocery stores (-0.5%), Liquor retailing (-1.4%), and Other specialised food retailing (-0.9%).
- **Household goods retailing:** The seasonally adjusted estimate for household goods retailing fell 1.0% in August 2017. By industry subgroup, the seasonally adjusted estimate fell for Electrical and electronic goods retailing (-1.6%) and Hardware, building and garden supplies (-1.1%), and was relatively unchanged for Furniture, floor coverings, houseware and textile goods retailing (0.0%).
- **Clothing, footwear and personal accessory retailing:** The seasonally adjusted estimate for Clothing, footwear and personal accessory retailing fell 0.2% in August 2017. By industry subgroup, the seasonally adjusted estimate fell for Footwear and other personal accessory retailing (-0.6%) and rose for Clothing retailing (0.1%).
- **Department stores:** The seasonally adjusted estimate for department stores rose 0.7% in August 2017.
- **Cafes, restaurants and take-away food services:** The seasonally adjusted estimate for cafes, restaurants and takeaway food services fell 1.3% in August 2017. By industry subgroup, the seasonally adjusted estimate fell for Cafes, restaurants and catering services (-1.8%) and Takeaway food services (-0.5%).
- **Other retailing:** The seasonally adjusted estimate for Other retailing rose 0.1% in August 2017. By industry subgroup, the seasonally adjusted estimate rose for Other retailing n.e.c (1.7%), and fell for Other recreational goods retailing (-2.3%), Pharmaceutical, cosmetic and toiletry goods retailing (-0.5%), and Newspapers and books retailing (-2.3%).

Source: Australian Bureau of Statistics data

## Contact us

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