

Retail Convenience

2019 H1 Review



The latest CSO Retail sales Index (issued 26 July 2019) outlined continued growth in Irish retail sales with an annual increase in sales volume (excluding motor) of c. 5% v 2018 – this underpins a positive outlook for the sector in 2019.

Summary

- Continued Growth: Continued positive trend in retail sales volume and value in 2019 linked to strong employment and disposable income data from the CSO/IBEC.
- Revamp Activity: Significant store revamp activity to continue across all brands facilitating retailers to align their offering to the expectations of the discerning Irish consumer whilst improving store sales and margin performance.
- Consolidation: Market activity amongst leading wholesalers/retail groups to continue through brand extension/acquisition as they seek to capture increased consumer data/insights and to drive internal efficiencies.

2019 H1 Key Trends

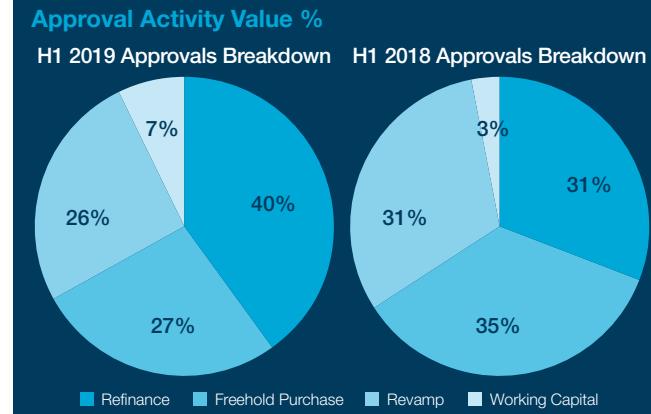
- While strong price competition for market share between leading symbol brands continued to curb growth in total sales values, H1 2019 delivered positive growth in both volume (+c. 5%) and value (+c. 3%) of retail sales (excluding motor).
- Dunnes, Supervalu and Tesco continued to compete strongly for the no. 1 spot in grocery market share with Aldi & Lidl maintaining a strong foothold in the Irish market.
- Convenience retailers, in particular Spar and Centra continue to perform very strongly, reflecting improved consumer sentiment and a requirement for convenient, accessible shopping solutions. Growth has been especially evident in revamped stores with sales +5%-10% and margin +0.5%-1% on average post revamp.
- The Irish consumer expects a frictionless/accessible shopping experience and progressive retailers are continuing to invest in omni-channel strategies and technology (click & collect, online show-room, on-line loyalty clubs) to drive improved engagement opposite their customers and employees.

Sector Developments – 2019 H1 Key Numbers

- 5%: Rate of sales growth volume per CSO latest report
- €100m: Amount ear-marked by Maxol for investment in their store network over the next 3 years with a shift in focus from fuel to a food/convenience model.
- 8%: Increase in turnover delivered by BWG in the 6 months to 31st March 2019 when compared with the 6 months to March 2018.
- €3.9bn: Revenue reported by the Musgrave group for the year end December 2018 representing an increase of 3.8% v 2017.
- 45: Number of new stores projected by Spar Ireland in 2019/2020 as part of a €25m investment nationwide.

Key Activity in the Sector in 2019 H1

- A strong pipe-line of funding activity developed in H1 2019 with revamp / freehold purchase accounting for c53% of approvals as progressive retailers seek to future-proof their business.
- Brands and retailers are ever more conscious of reflecting the values of their customers. Supervalu, Spar, Applegreen, Centra and Lidl have all announced the roll-out / development of environmentally friendly practices via reduced plastic waste, sustainable energy frameworks, in-store recycling bins etc.
- Retailers are continuing to implement pragmatic succession planning structures to ensure that appropriate long-term value is delivered from their business.



Sector Developments: Investment and Consolidation

- Supervalu have announced that they will open 3 new stores in 2019 and a €35m revamp programme of their store network. Supervalu Dunboyne representing a €12m investment by the Nally group opened in March 2019.
- The proposed merger of Sainsbury's and Asda in the UK has been blocked by the UK competition authority. This would have created the largest supermarket group in the UK. Walmart, the owner of Asda are now reported to be fully reviewing their UK strategy.



Retail Convenience

2019 H2 Outlook



Continued growth in sales volume, competitive pricing strategies employed by all leading grocery brands and extensive store revamp programmes forecast for 2019.

2019 H2 Key Numbers

- ▶ **20:** Homesavers have announced plans to add 20 new stores to their Irish network in a €10m investment earmarked for 2019/2020.
- ▶ **50%:** Percentage of plastics that need to be recycled in Ireland by 2025 to meet EU targets. Ireland currently recycles 33% of all plastics and strong engagement from the retail sector is an imperative to the increased target being met.
- ▶ **€10.00+:** The minimum wage is expected to break the €10 threshold in Budget 2020. With unemployment at a ten year low – strategies on the acquisition and retention of staff are high on the radar of all Irish retailers.
- ▶ **€160m:** Investment from Aldi in expanding and refreshing their store network nationwide primarily through their “Aldi Fresh” store concept.

2019 Retail Convenience Sector Outlook

- ▶ **Positive Outlook:** Growth in sales volumes and value to continue linked to improving Irish employment levels and disposable income data issued by the CSO/IBEC.
- ▶ **Funding Activity:** Strong pipeline of store purchase and revamp proposals to continue in 2019 along with uplift in re-finance activity.
- ▶ **Competitive market:** Competitive pricing and loyalty / partnership focused techniques along with innovation in store lay-out will continue to be a feature of the grocery sector to maintain market share for leading symbol groups.

Market

- ▶ Top line retail sales growth is projected in line with improved consumer spending power and sentiment.
- ▶ The partnership model ('Brand within a Brand') will continue to be a feature of Forecourt stores in particular as leading retailers incorporate multi-brand offerings in-store (Subway, Kanoodle, Frank & Honest, Insomnia, Zambrero etc.) to meet the expectations / requirements of a wider consumer cohort and proactively lessen their reliance on fuel (diesel/petrol) revenue.
- ▶ Significant revamp programme rolled out nationwide by leading



operators as the ever more discerning consumer seeks excellence in store standards and access to “fresh” and healthy meal solutions.

- ▶ Detailed analysis pre and post revamp will be an imperative to ensure that maximum return on investment is delivered via sales mix improvement, margin growth and cost saving.
- ▶ The retention and recruitment of skilled, experienced staff will continue to be a key focus for retailers in a competitive employment market (running at close to “full employment”).
- ▶ Corporate social responsibility linked to sustainable and environmentally friendly in-store activities will be a key area of focus for all retailers – energy efficient equipment, elimination of single-use plastic, improved recycling facilities and reduction of food waste.
- ▶ Brexit: All businesses should be utilising a bespoke Brexit diagnostic tool to analyse potential Brexit exposure and to mitigate same in an effective, proactive manner.

Funding Activity

- ▶ Revamp activity to remain strong linked to a proactive revamp strategy from progressive retailers nationwide.
- ▶ Store sale activity primarily linked to succession planning will continue to develop in 2019. Leasehold retailers will continue to see opportunities to purchase the freehold interest of their stores.
- ▶ Strong refinance activity projected in the sector in H2 2019 linked to exiting banks and loan book purchasers seeking to deleverage.

Bank of Ireland

- ▶ At Bank of Ireland, we recognise that we have a unique opportunity to support our customers and to enable Irish businesses and the communities we jointly serve to thrive.

- ▶ Our proven financial capabilities and appetite, combined with comprehensive sector expertise, provide us with a strong platform to meet the funding requirements of Irish retailers.
- ▶ We understand the investment cycle, including the need for regular expenditure to maintain growth and profitability in this dynamic sector, and we have a strong appetite to support progressive, innovative retailers in the further development of their businesses in 2019.

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Owen joined Bank of Ireland in 2015 as Head of Retail Convenience. Owen previously worked for Musgrave Retail Partners Ireland where his role involved supporting independent retailers to maximise their profitability and to develop long-term, sustainable business models. During this time, Owen developed significant knowledge of finance, operations and legal / regulatory requirements specific to the retail convenience sector. Owen holds a BA in Law and Accounting from the University of Limerick and is a Fellow of the Institute of Chartered Accountants Ireland and an Associate of the Irish Taxation Institute and previously held roles with Pricewaterhouse Coopers and Deloitte.