

Retail Convenience

2019 Insights

The latest CSO Retail sales Index (issued 28 Jan 2020) outlined continued growth in Irish retail sales with an annual increase in sales volume (excluding motor) of c. 4.5% v 2018 – this underpins a positive outlook for the sector in 2020.

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 provides a strong foundation for the sector in 2020.
- **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 Key Trends

- While strong price competition for market share between leading symbol brands continued to curb growth in total sales values, 2019 delivered positive growth in both volume (+c. 4.5%) and value (+c. 2.5%) 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, Centra and Londis 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 Key Numbers

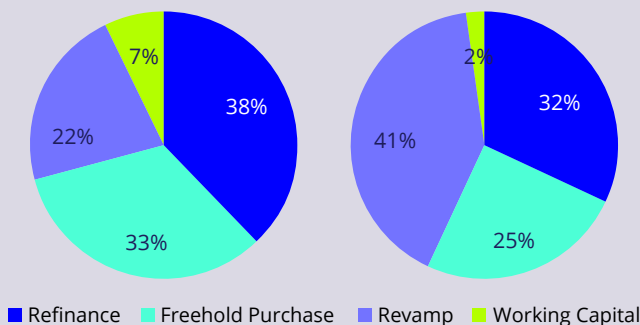
- **4.5%:** Rate of sales growth volume per CSO latest report
- **€160m:** Investment from Aldi in expanding and refreshing their store network nationwide primarily through their “Aldi Fresh” store concept.
- **€100m:** Cost of Lidl’s new energy efficient distribution centre in Newbridge which will service its nationwide portfolio of stores.
- **40%:** Percentage holding acquired by Applegreen in JLIF Holdings US which operates 23 fuel & retail service plazas in Connecticut, USA.
- **€10m:** Amount earmarked by Londis for growth/revamp plan across its portfolio of branded stores.

Key Activity in the Sector in 2019

- A strong pipe-line of funding activity developed in 2019 with revamp / freehold purchase accounting for c55% of approvals as progressive Irish 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 (amongst others) 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.

Approval Activity Value %

Approval Activity Value % 2019 Approval Activity Value % 2018



Sector Developments: Investment and Consolidation

- BWG have announced the purchase of Heaney Meats, a Galway based premium meat supplier further consolidating their food service offering following the purchase of Corrib Foods in 2018.



- Musgrave have agreed terms to purchase Drinks Inc, a Northern Ireland based distributor of beverages which again expands their food-service offering following the recent acquisition of La Rousse foods in December 2017.
- A number of key executive appointments & shareholder announcements took place in 2019. Ken Murphy (from Co Cork) will become the new Global CEO of Tesco. Noel Keely will succeed Chris Martin as Group CEO of Musgrave. Spar South Africa will further increase their holding in BWG (purchasing the remaining 20%) in line with their agreed staged acquisition strategy across 2020-2022.
- Consumers are continuing to move up the value-chain with a key focus on food provenance and healthy options. This demand is being met by expansion/investment from Avoca, Fresh the Good Food Market and Nolan's of Clontarf amongst others. Irish retailers continue to excel on the world stage with Scally's Supervalu Clonakilty and Thomas Ennis' Spar Group both winning prestigious international awards in 2019.

Retail Convenience Outlook 2020

Continued growth in sales volume, competitive pricing strategies employed by all leading grocery brands and extensive store revamp programmes forecast for 2020.

2019 Key Numbers

- **70%:** Musgrave have announced plans to reduce their carbon footprint by 70% across their business / retail partner stores by 2025.
- **1.5 million:** The number of contactless transactions daily in Ireland at present. This is expected to increase in 2020 as consumers seek a frictionless shopping experience.
- **22,000:** The estimated number of disposable coffee/tea cups used hourly in Ireland at present. The Government has agreed to introduce a disposable cup levy commencing in 2021 with a levy range of 10c-25c expected.
- **€81m:** The value placed by Spar South Africa on the remaining 20% of BWG that it will acquire in 2020-22 based on its latest filing with the South African stock exchange

2020 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 2020 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, Camille Thai, 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.
- All retail businesses will need to focus strongly on margin growth / preservation in 2020 and beyond given increased market competition and rising personnel/operational costs.

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 2020. Leasehold retailers will continue to see opportunities to purchase the freehold interest of their stores.
- Strong refinance activity projected in the sector in 2020 linked to exiting banks and loan book purchasers seeking to deleverage.

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 2020.

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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.