



Bank of Ireland Sectors Team Retail Convenience 2020 Insights / Outlook 2021

February 2021



Classification: **Green**

Retail Convenience: 2020 Review

Summary

- **Unprecedented Growth:** Exceptional growth delivered by grocery retailers linked to COVID-19 related demand. Shopping behaviour and frequency patterns favoured larger operators in the Irish market.
- **Customer Goodwill:** Sector response to the pandemic; supporting communities and vulnerable in society has generated goodwill and trust towards retailers and their staff.
- **Investment:** Store revamp and purchase activity was particularly strong in H2 2020 and this trend is expected to continue in 2021. Bank of Ireland continues to actively engage and support grocery retailers with investment plans.

2020 Key Trends

- Strong growth in take-home grocery sales linked to COVID-19 customer requirements and behaviour. Growth of 17% delivered in December 2020 per Kantar Grocery market share index.
- Supervalu, Dunnes and Tesco continued to compete strongly for the no. 1 spot in grocery market share; Supervalu benefiting from its extensive community focused store network and online capability and Dunnes delivering a strong performance in the Dublin region. Aldi and Lidl continue to maintain a strong foothold in the Irish market.
- COVID-19 has driven a large divergence in performance amongst convenience focused operators. Neighbourhood stores (Centra & Eurospar) have reported a strong performance whereas many city/town centre and forecourt stores have seen a significant deterioration in footfall linked to increased working from home practices etc.
- The Irish consumer now expects a frictionless/accessible shopping experience linked to health and safety and progressive retailers are continuing to invest in omni-channel strategies and technology (click & collect/on-line loyalty clubs) to drive improved engagement opposite their customers and employees. The provenance/origin of products continues to inform/guide shopping trends and behaviour.

2020 Key Numbers

17%



Grocery sales increase in December 2020 per Kantar Grocery market share index.

46%



Increase in online grocery sales v December 2019 per Kantar Grocery market share index.

100



Milestone anniversary celebrated by Maxol Group in 2020.



€400m+

Valuation of BWG Group's equity per Spar South Africa's annual report (*Irish Times* 19/11/20).



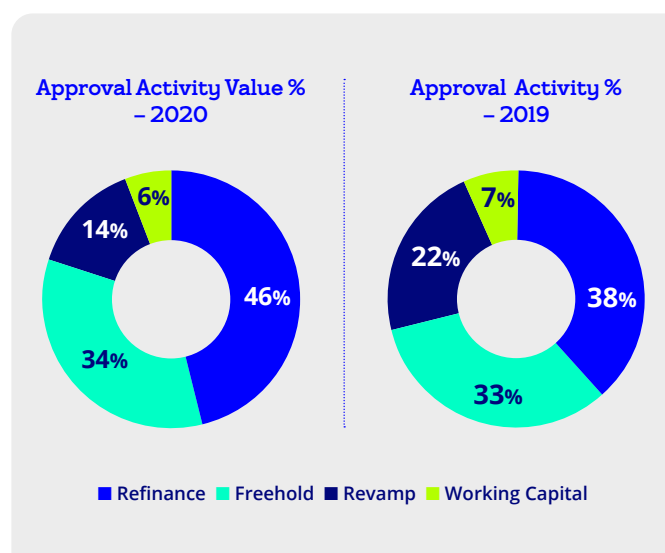
€718m

Sales price agreed for Bidco to purchase Applegreen (*Various media* 22/12/20).

Key Activity in the Sector in 2020

- Despite exceptional demand, the overall grocery supply chain proved robust; a testament to the contingency plans in place by Irish grocery operators/wholesalers.
- Shopping patterns have reverted to the "Big weekly grocery shop". This has led to a negative impact on gross margin percentage as less impulse/more considered shopping behaviour emerges.
- Retailers are continuing to implement pragmatic succession planning structures to ensure that appropriate long-term value is delivered from their business. COVID-19 has been a catalyst for some retailers investigating future options.
- A strong pipeline of store revamps and purchase activity was generated in H2 2020. Progressive retailers continue to recognise that in-store investment is necessary to maintain customer engagement and loyalty.

Approval Activity Value % (per internal Bank of Ireland data)



Sector Developments: Investment and Consolidation

- Tesco have continued their contraction strategy by selling their operations in Thailand, Malaysia and Poland in recent months. Cork man, Ken Murphy took over as Tesco Global CEO in H2 2020.
- Supervalu, Lidl, Aldi and Dunnes all outlined plans for new store openings in 2021 across all regions with a noteworthy focus on satellite towns of Dublin, Cork and Galway.
- A number of key transactions occurred in the forecourt sector; DCC purchasing Tesco's forecourt outlets, Greenergy purchasing Amber Oil and Bidco taking Applegreen private. Further consolidation in this sub-sector is expected in 2021 (*Shelflife/Irish times/Sunday times*).
- Consumers continue to have a key focus on food provenance and healthy options. This demand is being met by expansion/investment from Fresh the Good Food Market and Nolan's of Clontarf amongst others. Musgrave have signed an exclusivity agreement with The Happy Pear for the island of Ireland and BWG have launched a healthy-eating guide in conjunction with the FAI.

Retail Convenience 2021 Outlook

2021 Key Numbers

24



Number of stores within the Dunnes stores network providing an online service in collaboration with Buymie. (Irish Times 05/10/20).

£6.8bn



The amount paid by EG Group to acquire a majority ownership in Asda in the UK. (The Grocer – October 20).

1,200



The reduction in carbon emission tonnes which Tesco aims to deliver from its partnership with Green Generation. (Shelflife June 20).

€28m



The daily contactless spend in Ireland in October 2020 per the Banking and Payments Federation (BPF 05/12/20).

- The long-term model adopted by high convenience and Forecourt retailers will be examined – can they effectively pivot towards grocery top-up and/or a hub for people working from home through increased delivery capability?
- 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. This will enable an improved cost base whilst meeting consumer expectations in respect of ethical trading.
- Development of a frictionless, reliable and efficient online service to meet increased demand for a digital offering will rank high on investment priorities for the sector. Retailers will examine the benefits of 3rd party partnerships, “dark-stores/fulfillment centres” and improved click and collect offerings to meet the nascent growth in this channel.
- All retail businesses will need to focus strongly on margin preservation in 2021 linked to functional/more considered shopping behaviour.

2021 Retail Convenience Sector Outlook

- **Robust Outlook:** Overall a resilient sector to economic shocks; Level of COVID-19 linked restrictions will be key for footfall re-instatement in high convenience and forecourt stores.
- **Funding Activity:** Strong active pipeline of store purchase and revamp proposals– retailers recognise that customer experience/excellent standards will be key to attract and retain market share.
- **Investment/Consolidation:** Increased investment in partnership agreements and further consolidation of the market (especially forecourt sub-sector) expected in 2021.

Market

- Significant revamp programme rolled out in 2021 nationwide by leading grocery operators as the ever more discerning consumer seeks excellence in store standards. Activity levels in 2020 were impacted by COVID-19 linked restrictions and volumes completed in 2021 will be subject to levels/length of restrictions in the coming months.
- 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.
- Increased consolidation expected in the market with larger independent grocery/convenience operators expanding their store network thus creating multi-store groups operating under the Supervalu, Centra and Spar banners in particular.

Funding Activity

- Revamp activity to continue linked to a proactive revamp strategy from progressive retailers nationwide (subject to no further COVID-19 linked restrictions)
- Store sale activity primarily linked to succession planning will continue to develop in 2021. Leasehold retailers will continue to see opportunities to purchase the freehold interest of their stores.
- Refinance activity projected in the sector in 2021 linked to exiting banks and loan book purchasers seeking to deleverage.

Bank of Ireland

- In 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, 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 2021.



Owen Clifford

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Owen Clifford is Head of Retail Convenience within Bank of Ireland since 2015. Owen is responsible for the continuing development of the Bank's growth strategy in this key area and has actively supported leading retailers and stakeholders in the sector to grow and develop their business in a sustainable manner.

Owen has brought extensive industry knowledge and experience to this role, having worked in the retail sector with 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 built up a significant knowledge base, and a network of connections with expertise, in the areas of Finance, Operations and Legal/Regulatory requirements specific to the Retail Convenience sector.

Owen holds a first class honours degree 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.

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