

CreditSights European Outlook Conference

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European Retail: Time to Tighten the Belts

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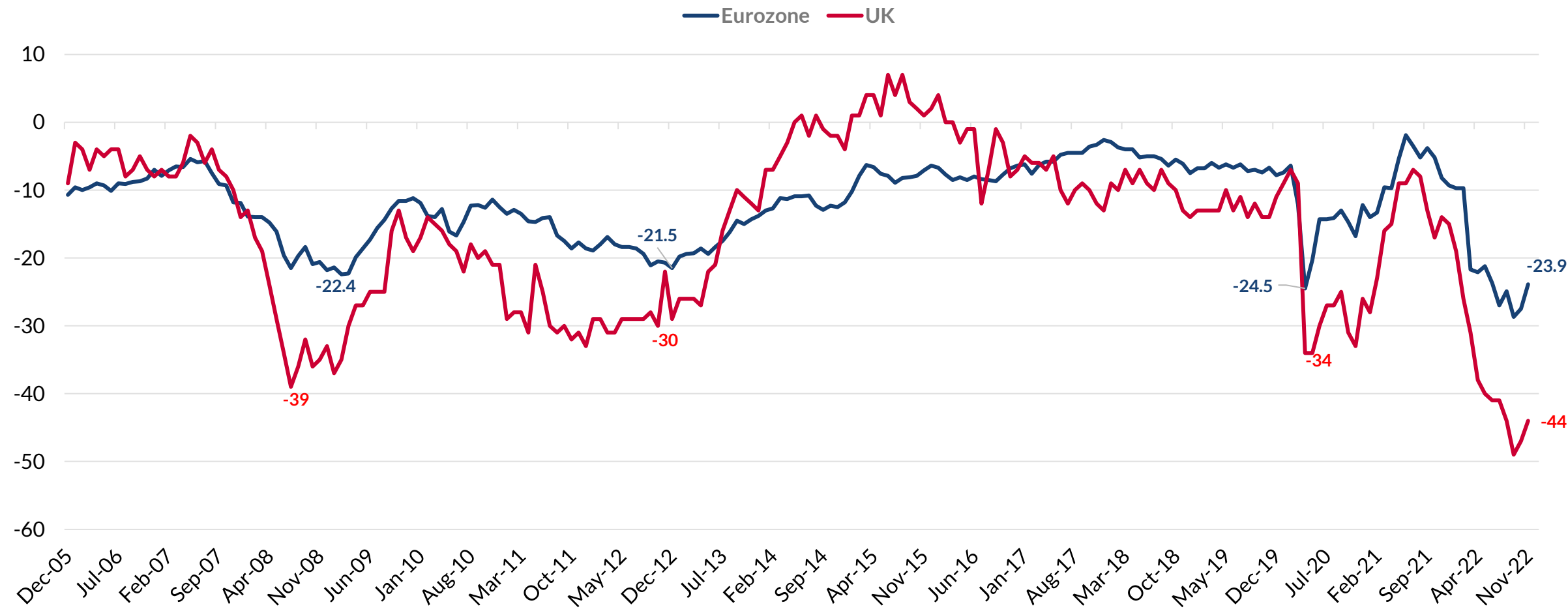
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Consumer Sentiment Near All-time Lows

Consumer Sentiment



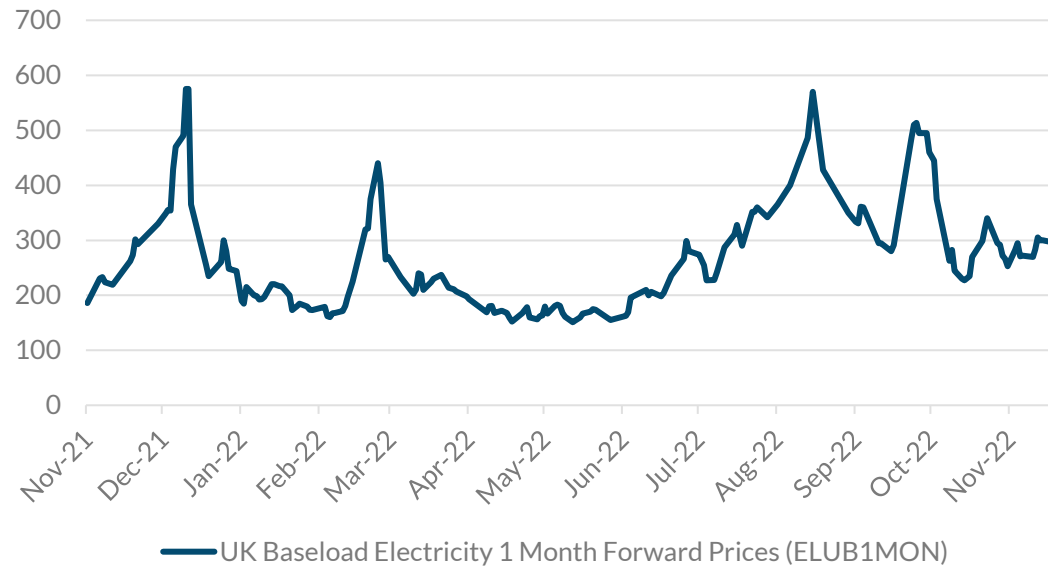
Consumer Price Inflation – Eurozone Catching Up to the UK

CPI (YoY %)

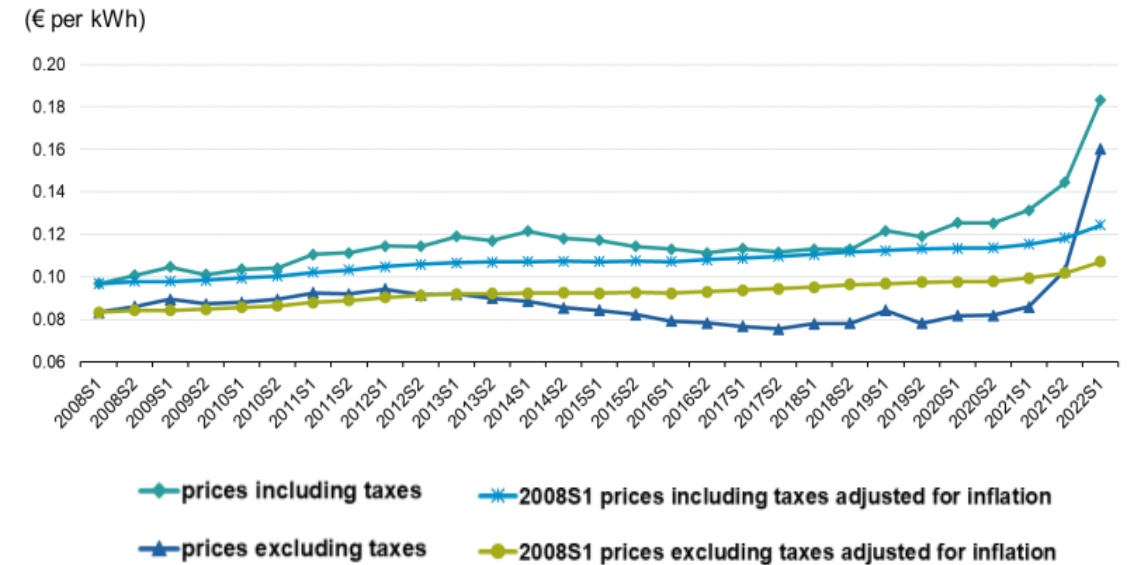


Grocers Working to Mitigate Margin Erosion, But More Pain to Come

UK Wholesale Electricity Price Evolution (£/MWh)



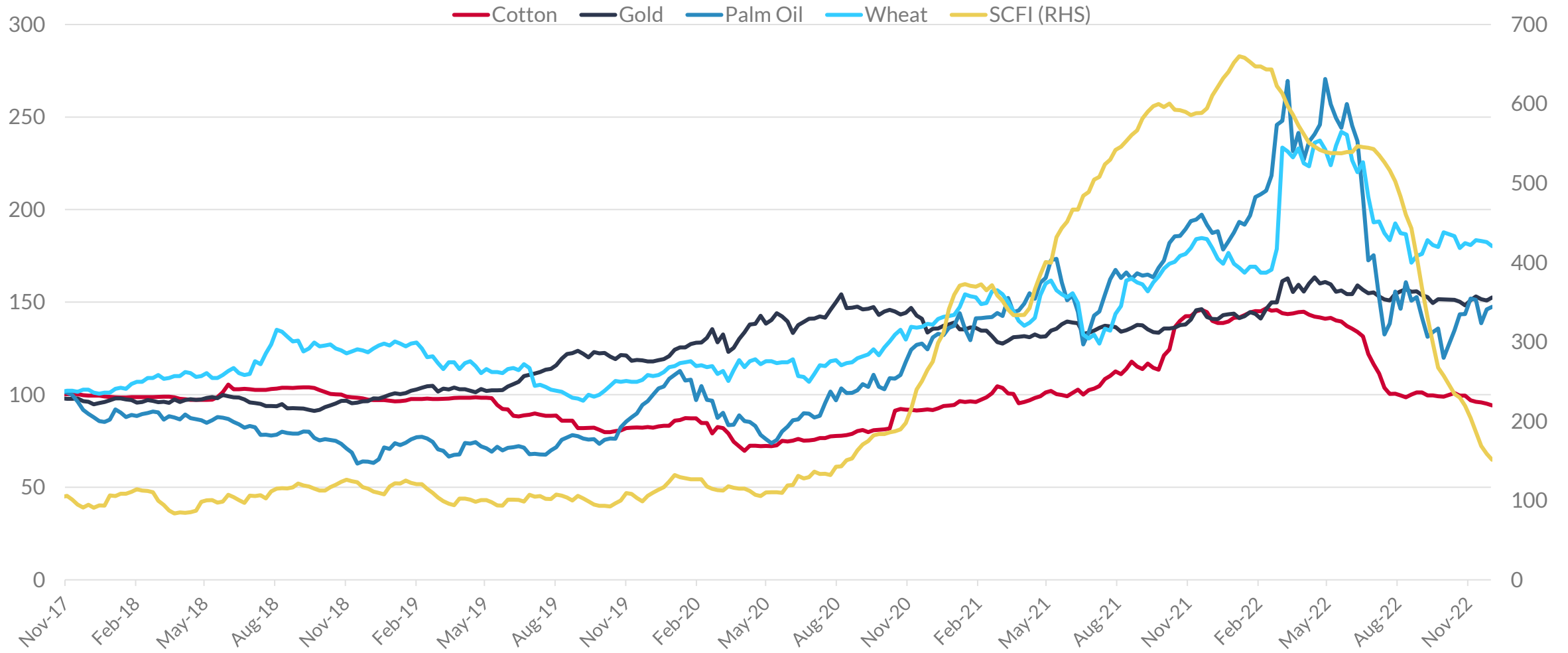
EUR Non-Household Electricity Price Evolution



- Measures include price locking and matching, rising private label participation, loyalty programmes and cost cutting

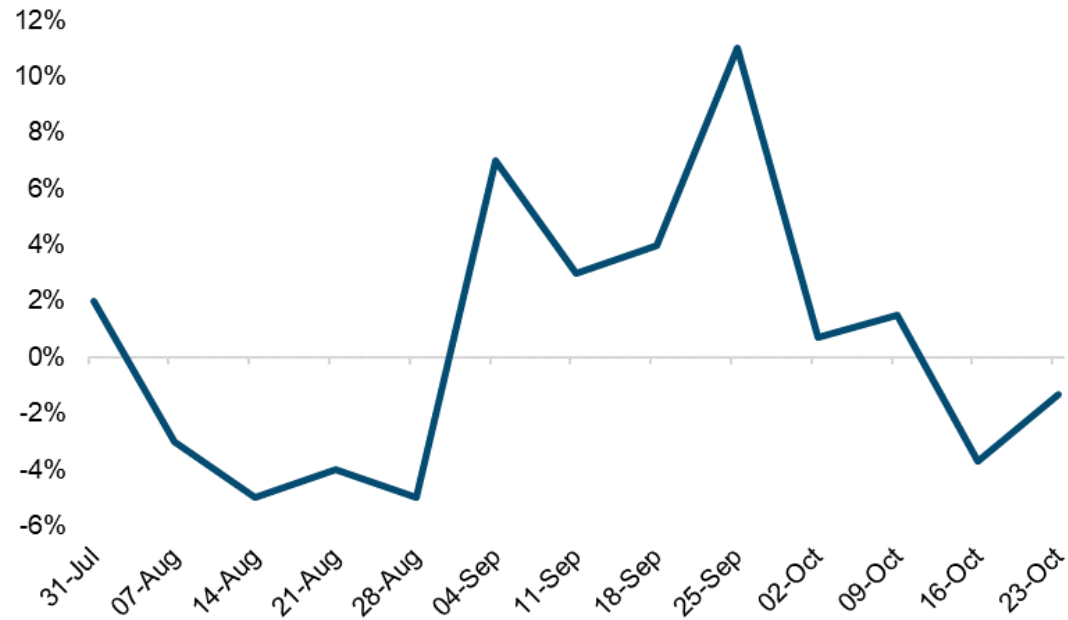
Key Commodity Prices Trending Down

Selected Commodities' Price Inflation (indexed to 2017 = 100)

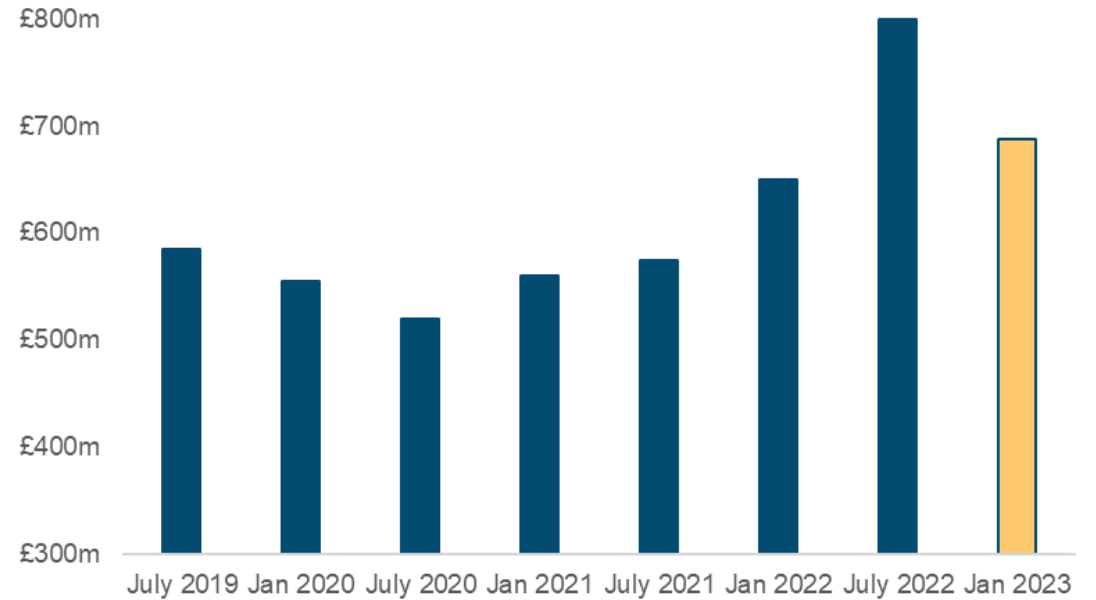


Non-food / Discretionary: Protecting Full Price Sales

NEXT Full Price Sales Soften



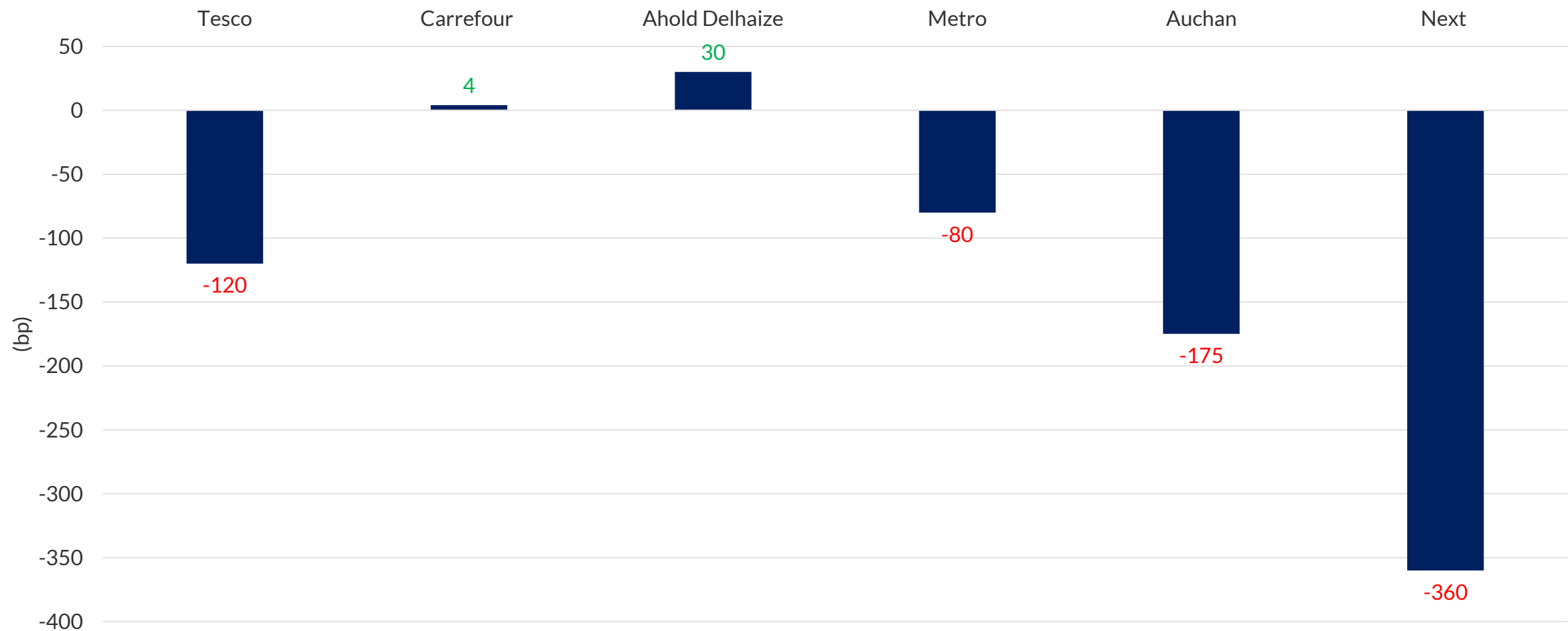
NEXT Stock Elevated, Though Correction Anticipated



- Apparel retailers (across IG and HY) are focused on avoiding discounting and passing through COGS inflation
- Key factors would be the extent of stock overhang and how well demand holds up in the winter season

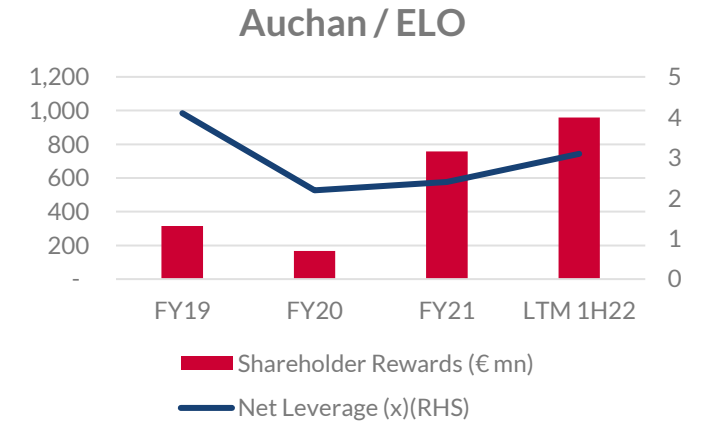
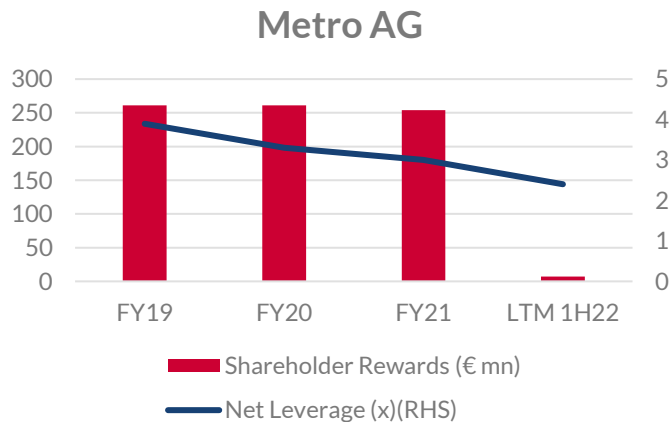
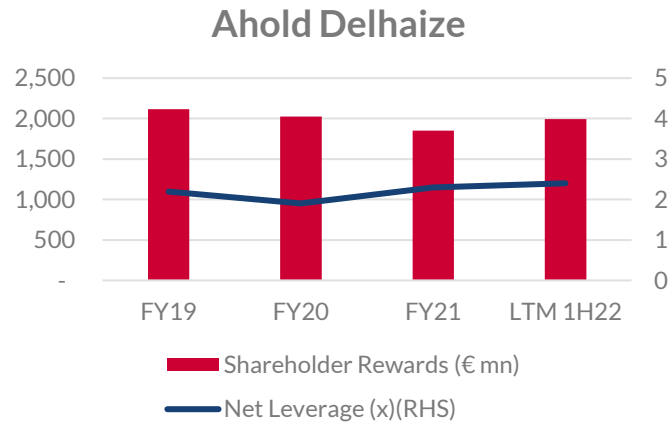
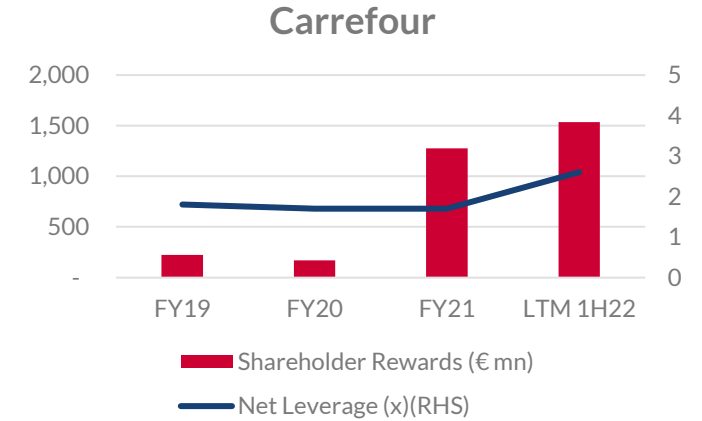
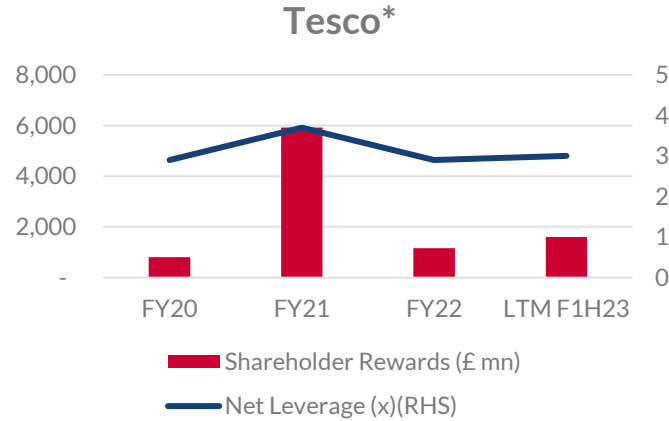
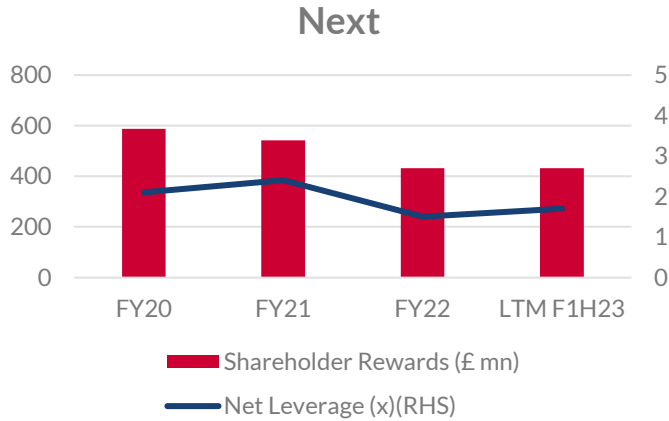
Grocer Margins Relatively Resilient

2Q22 Adj. EBITDA Margins vs 2019



Shareholder Rewards Expected to Continue

Net Leverage Evolution vs Total Shareholder Rewards (Dividends + Share Buybacks)



Source: Company Reports, CreditSights.

Note: Next fiscal year end in Jan, F1H23 ended Jul-22. Tesco fiscal year end in Feb, F1H23 ended Aug-22.

* FY21 payout included a £5 bn special dividend from Asia business sale proceeds

M&A and New Issuance Outlook – Not Much to Look Forward To

- Total grocer bond maturities of €2.1 bn next year – Tesco (€750 mn in Oct'23), Carrefour (€500 mn in Jun'23) and Metro (€500 mn in Mar'23)
- Carrefour has recently raised €850 mn of 2028 SLBs with the initial €500 mn followed by a tap
- M&A Outlook – Bolt-ons to continue but capital allocation strategies are more focused on shareholder rewards



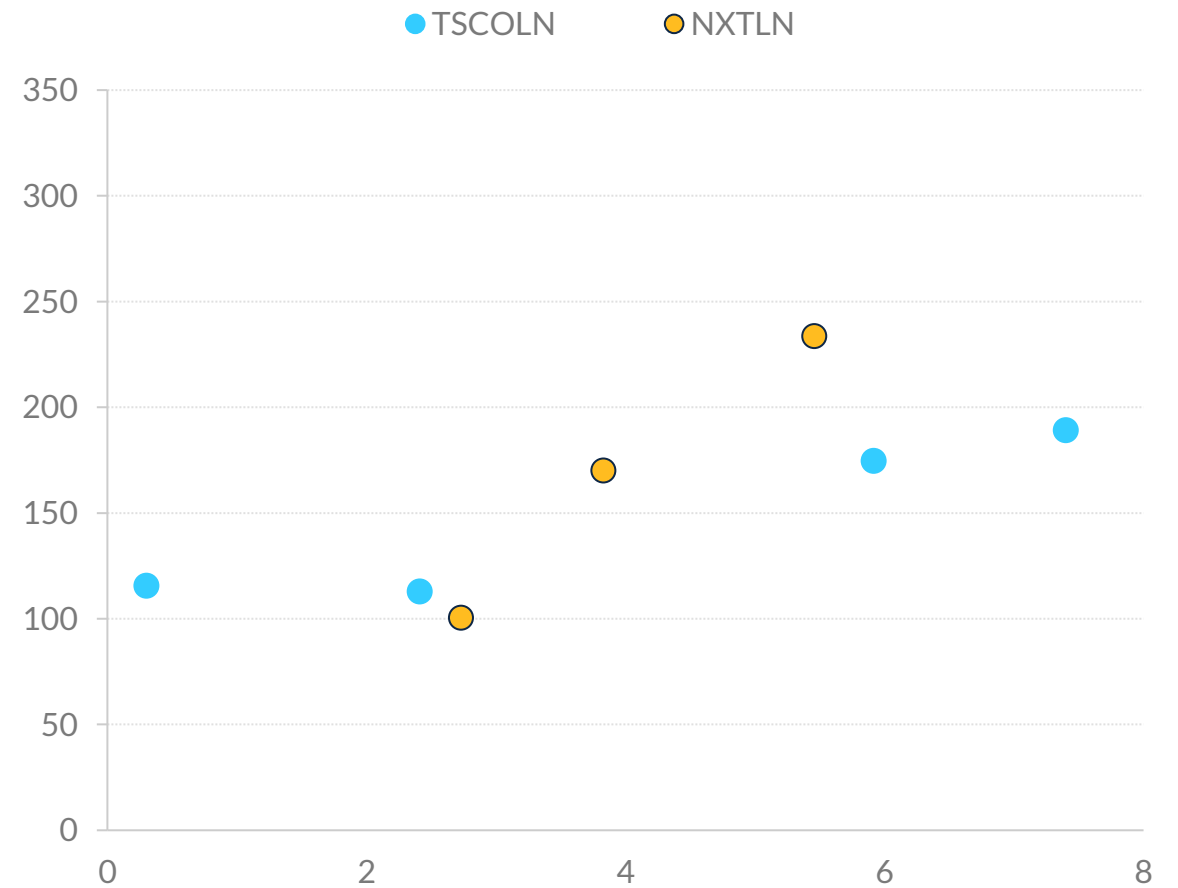
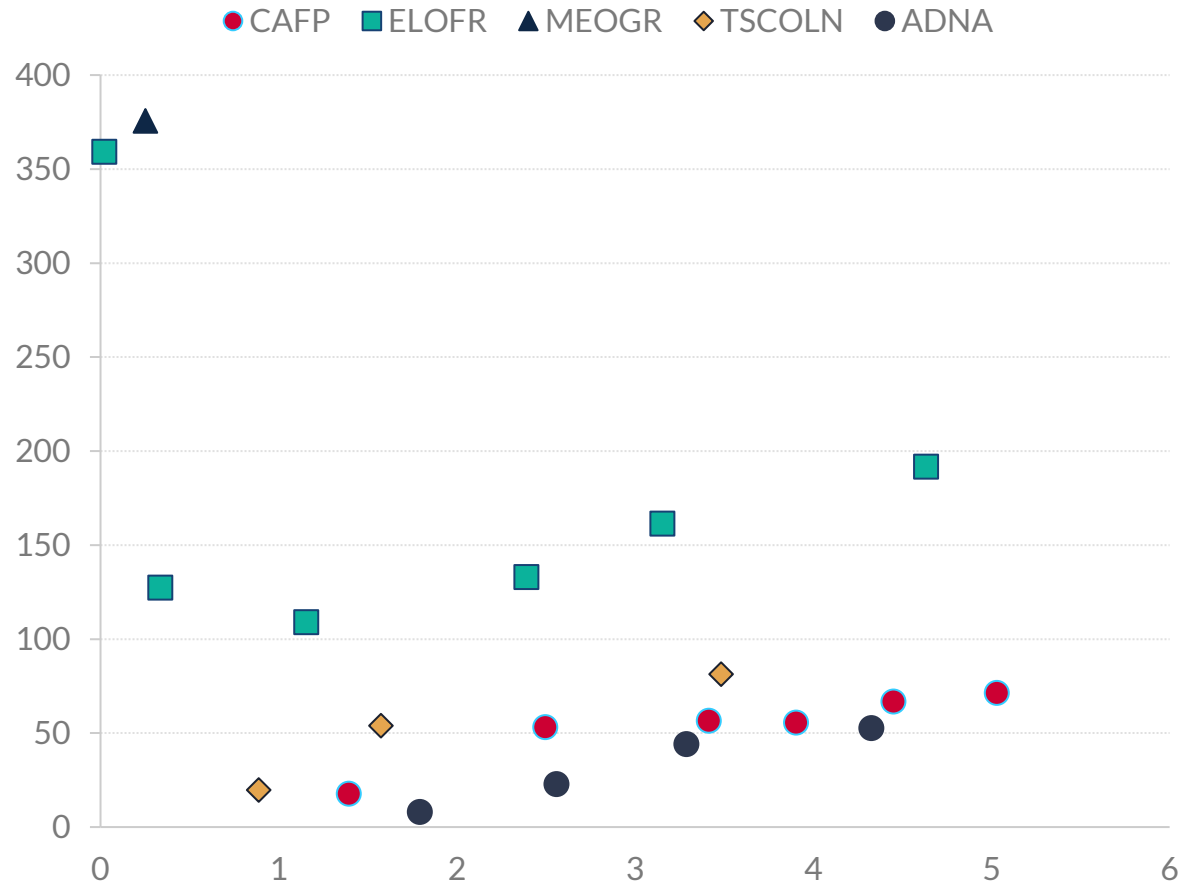
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Relative Value

IG Retailer EUR (LHS) and GBP (RHS) Notes: Z-Spread against Years to Maturity



Key Takeaways

- Margin pressure could possibly intensify through 2023, though more in-home consumption will be supportive for grocery demand
- Shareholder pay-outs to continue as liquidity is not seen as a concern
- Non-discretionary/Clothing – focus on maintaining full price sales and inventory reduction as margin pressure steeper compared to grocers



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