EUROPEAN VALUATIONS

MARKET SECTOR INSIGHTS – JUNE 2021

FMCG Market

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Global Outlook

According to a report by Allied Market Research, the global FMCG market was worth $10.7 trillion in 2018 and is projected to reach $15.4 trillion by 2025, registering a CAGR of 5.4% during the forecast period of 2018 to 2025. The FMCG market has experienced healthy growth over the last decade because of adoption of experience retailing along with reflecting consumer desire to enhance their physical shopping experience with a social or leisure experience.

Growing population across the world coupled with increasing disposable income is one of the major factors expected to drive revenue growth of the FMCG market over the forecast period. Moreover, increasing penetration of smartphone and Internet including social media has led to awareness regarding availability of these products in online store which is a factor expected to further support revenue growth of the global market.

Packaging of FMCG products play an important role in the sales, as packaging adds aesthetic look to the product and attracts the consumer towards buying them. Hence, to sustain in competitive market, manufacturers are investing in advancement of packaging technologies in order to increase sales which is also expected to propel market growth. Moreover, manufacturers are also adopting various strategies including launch of new products at competitive prices and advancements in existing products which is expected to further augment market growth in the coming years.

However, the fluctuating cost of raw materials is one of the major factors expected to hamper growth of the global market. Moreover, fragmentation of the market is another factor expected to challenge market growth to a certain extent

Regional Segmentation

According to the report by Allied Market Research, Asia-Pacific holds the major market share in the global FMCG market, followed by North America and Europe. Asia Pacific accounts for more than one-third of the total market share and is projected to maintain its lead in terms of revenue by 2025. In addition, this region would grow at the largest growth rate with a CAGR of 8.0% from 2018 to 2025. This is due to significant enhancements in infrastructure and varying eating habits & lifestyle.

Food and Beverages Segment Dominates the Market

The food & beverage segment currently holds the majority share in the FMCG market and is expected to keep doing so throughout the forecast period. Consumers today have become more knowledgeable and open to food & beverages consumed by foreign cultures. They are driven by a sense of exploration and are in search for new experience. This search for novel experience has pushed the food & beverage operators to maintain the quality of their offerings. The trend of healthy eating has also been a top impacting factor affecting the growth of the food & beverage market. Also, consumers have become increasingly health conscious and a large number of people have begun to follow special diets and want to enjoy these healthier choices both at home and when they are eating.

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Supermarkets and Hypermarkets

The supermarkets and hypermarkets distribution channel segment currently dominate the global FMCG market. The growth of this segment is driven by rise in disposable income and increase in demand for a one-stop solution for all shopping needs. Moreover, the augmented experience provided by these retail formats is further increasing their attractiveness to customers. This in turn drives the growth of the supermarkets and hypermarkets distribution channel segment of the FMCG market.

Online FMCG Sales

According to data from research firm Kantar Worldpanel, worldwide online sales of FMCGs—the kinds of low-cost products typically sold in places like grocery stores, drug stores and convenience stores—grew by 20.3% in 2018 and now represent over 5.5% of grocery sales worldwide. By 2025, Kantar expects the global market share of online FMCG sales to roughly double by 2025, reaching 10% of the total market.

Kantar further says that traditional retailers currently hold most of the online FMCG market in Austria, Germany, Russia, Spain and the United Kingdom. Likewise, Amazon’s share of the online FMCG market is just 8.8% in France, 5.0% in Germany, 3.2% in Spain and 1.0% in the United Kingdom. While online sales for multi-channel retailers in Europe tend to focus on traditional food and drink products, Amazon’s sales are more heavily skewed towards personal care,” says Eric Batty, global ecommerce business development director at Kantar Worldpanel.

UK Retail Sales

According to latest figures from the ONS, retail sales volumes declined by 1.4% between April and May 2021 following a sharp increase in April when retail restrictions were eased; despite the monthly decline, over April and May combined, average total retail sales volumes were still 7.7% higher than in March 2021 and were 9.1% higher than in February 2020 before the impact of the coronavirus (COVID-19) pandemic. The largest contribution to the monthly decline in May 2021 came from food stores where sales volumes fell by 5.7%; anecdotal evidence suggests the easing of hospitality restrictions had had an impact on sales as people returned to eating and drinking at locations such as restaurants and bars.

Non-food stores reported a 2.3% increase in monthly sales volumes in May 2021 with household goods stores (for example, hardware and furniture stores) and “other” non-food stores reporting the largest growth of 9.0% and 7.7% respectively. The large increase in sales volumes in April, followed by a relatively small fall in May, has resulted in the volume of sales for the three months to May 2021 being 8.3% higher than in the previous three months; there was strong growth in automotive fuel sales and non-food retailers of 19.3% and 17.8% respectively.

The proportion of retail sales conducted online remains substantially higher than before the pandemic, but in May all retail sectors, with the exception of food stores, reported a fall in their proportions of online sales as consumers returned to physical stores.

UK Consumer Spending

According to Barclays, UK Consumer spending grew 0.4 per cent in April 2021 compared to the same period in 2019 – the first growth recorded

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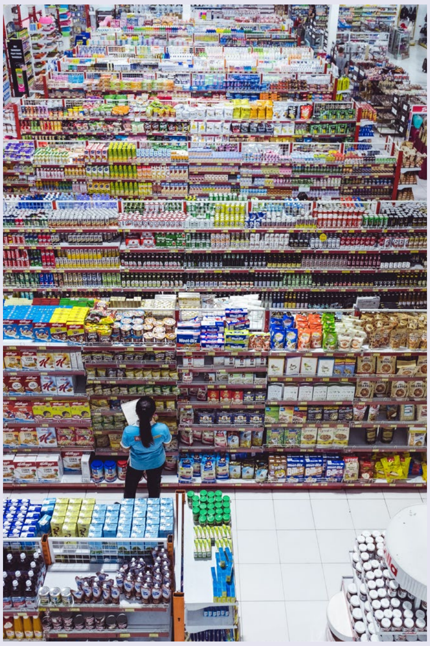

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this year, while consumer confidence in the UK economy is the highest it's been since the onset of the pandemic.

Spending on essential items rose 10.1 per cent compared to 2019, with fuel spend seeing less of a decline as more Brits travelled to see friends and family. While non-essential spending was still 4.4 percent lower than in 2019, shopping by younger consumers gave clothing and sports & outdoor retailers a boost.

Raheel Ahmed, Head of Consumer Products at Barclaycard said: "The easing of restrictions provided a promising boost to a number of sectors in April, with consumer spending back in growth and confidence in the UK economy at its highest level since before the onset of the pandemic. Younger shoppers have been spending more on clothing as they update their wardrobes in anticipation of socialising and making post-lockdown plans, while older consumers have boosted spending on UK accommodation and resorts, as they organise family staycations. Whilst there was a slight improvement in spending at pubs & bars and restaurants, the industry-wide restrictions on outdoor seating, sporadic colder weather and the rule of six all clearly dampened that recovery this month.

-Economic Impact of Coronavirus-

Undoubtedly, coronavirus is a black swan event – something that happens once in a century. Its spread has left businesses around the world counting costs, with many investors fearing the spread of coronavirus will pose an insurmountable challenge to the economic growth of all major countries across the globe. Almost every industry has been affected, with governments scrambling to somehow arrest the economic decline. Central banks in more than 50 countries, including the US Federal Reserve and the Bank of England have cut interest rates to try to strengthen their economies. Furthermore, most countries have announced unprecedented stimulus packages in the hopes of reviving their economy.

Effect on Global Demand

Owing to the pandemic, in the first half of 2020, restaurants, cinemas and shops around the world emptied, while flights, road traffic and energy use also fell steeply. Now more than one year later, consumer demand is still much below pre pandemic levels.

The retail industry has been hit hard. Lockdowns in many major economies until the middle of May 2020 and then again at the end of 2020 and the beginning of 2021 with only essential shops being allowed to open has meant huge losses for retailers, leading to many retailers shutting up shop.

It is clear now that the spread of coronavirus has led to a decline in global consumer spending, the heart of global economic activity. Moreover, employee layoffs in various industries are becoming increasingly common, in many cases on a large scale. This might lead to further pullback in consumer spending, at least in the near future, exacerbating the economic impact of coronavirus.

FMCG Industry

Owing to the COVID 19 pandemic, disruptions in the FMCG industry have varied depending on the product. Brands that make hand sanitizer, bleach, toilet paper and other household staples dealt with straining resources as they raced to meet skyrocketing demand. Other packaged-goods companies experienced slowing sales as consumers downshifted spending on non-essentials. According to S&P Global Ratings, in the short term packaged foods and home care businesses should continue to see healthy demand. On the flip side, demand for personal luxury goods and parts of the beauty segment are not expected to pick up significantly.

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As virus containment efforts intensified across many countries, it also shifted where people purchase products. In many product categories, sales have moved online or to club stores, where people flocked to load up on household staples. Many people who normally shopped in person but owing to the need for social distancing started buying products online. It's also likely that a notable percentage out of those people might keep shopping for products online even after the current crisis is over.

Going forward, as economies recover, big brands will likely get bigger, thanks to their resilience and consumer appetite for familiar, better-known brands. Furthermore, companies with global brands and diversified product ranges catering to different price points are likely to gain market share in a more volatile environment.

Decline in Optimism

After sounding a note of optimism at the end of 2020, respondents to a recent McKinsey Global Survey are thinking about 2021 with high hopes for economy's prospects. Majorities of executives continue to believe that conditions in their home economies and in the global economy will improve over the next six months. Yet their positivity has moderated since the previous survey; compared with December, smaller shares of respondents now predict that economic conditions will get better.

Within regions, there are a few changes of note. In India, respondents are now nearly as positive about their own economy's future as are those in Greater China (who, since March, have been the most optimistic about economic conditions at home)—and those in India are also the most upbeat about the global economy's prospects. But in several other regions, sentiment has taken a negative turn. In Asia–Pacific and in Europe, the shares of executives expecting their home economies to improve decreased by 15 and 11 percentage points, respectively, since December. The decline in optimism is most acute in Latin America, where 30 percent of respondents now expect improvements in their home economies. In the previous survey, 56 percent of executives there said the same.

UK Economic Forecast

The International Monetary Fund has downgraded forecasts for the UK's recovery this year while the expansion of the global economy, aided by accelerating vaccine rollouts, is expected to gather pace. Illustrating the severe impact of the pandemic on the UK economy, the IMF said in its latest forecast that the UK's national income, or GDP, would expand by 4.5% this year, down 1.4 percentage points from the 5.9% growth forecast made last October.

This follows a contraction in UK GDP of 9.9% in 2020, the biggest fall for any G7 country. The UK's acceleration of its vaccination program is not expected to give an extra boost to UK growth until 2022, when its growth rate is upgraded by 1.8 percentage points to 5%.

Global Economic Forecast

According to a report by the IMF, although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. The 2021 forecast is revised up 0.3 percentage points relative to the previous forecast, reflecting expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.

The projected growth recovery this year follows a severe collapse in 2020 that has had acute adverse impacts on women, youth, the poor, the informally employed and those who work in contact-intensive sectors. The global growth contraction for

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2020 is estimated at -3.5 percent, nearly one percentage point higher than projected in the previous forecast (reflecting stronger-than-expected momentum in the second half of 2020).

The report further adds that the strength of the recovery is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers and structural characteristics entering the crisis. The recovery will be driven primarily by countries such as India and China, forecast to grow by 8.8% and 8.2%, respectively. Recovery in large services-reliant economies that have been hit hard by the outbreak, such as the UK or Italy, is expected to be slow.

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