EUROPEAN VALUATIONS

MARKET SECTOR INSIGHTS – APRIL 2020

Retail Industry

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Fig.1 Global Retail Industry 2017-23

Global Outlook

According to a report by Business Wire, the global retail industry is expected to register a CAGR of 5.3% during the forecast period of 2018-2023, reaching to $31.9 trillion by 2023. The report goes on to add that the retail market is mature and highly competitive in the developed economies of Europe and North America while the developing economies of Asia-Pacific, Middle East, and Latin America have been instrumental in driving the market growth.

Consumer spending has been a key indicator of the health of the retail market. Moreover, the increasing strength of online shopping has also been a major driver. The nonstop disruption taking place in the retail environment is challenging many of the norms of retailing, creating opportunities for new entrants, and making transformation an imperative for incumbents.

Global Fashion Industry

Fashion industry growth is forecast to slow to 3% to 4% in 2020 – slightly below that predicted for 2019, according to the McKinsey Global Fashion Index.

According to Forrester reports, the online fashion segment currently holds a 27% share of the global e-commerce market and by 2022 it will have reached 36% of total fashion retail sales. Mobile commerce earned 57% of total online sales last year. Additionally, millennials have shown a strong preference for online shopping with 67% of them choosing this channel over physical stores.

Women's Wear Market

According to Grand View Research, the global women's wear market is expected to register a CAGR of 4.7% from 2019 to 2025. This growth can be attributed to the increasing number of working women, evolving fashion trends and high spending power of consumers. Growing influence of social media and celebrities is driving the manufacturers to continuously introduce new designs and styles. Furthermore, brands have been endeavouring to expand their consumer base through e-commerce sites, offering discounts, celebrity endorsements and customisation of fashion to suit individual needs.

Distribution Channel Insights

Offline distribution channels accounted for the largest market share of more than 55% in 2019, driven by exposure and accessibility to consumers. Research has shown shoppers over the age of 40 are less comfortable buying clothes online than younger consumers. Unawareness regarding e-commerce, reliability of offline stores and dependence on assisted shopping has created a customer base for offline retail stores. Adding to this, season clearance sales and instant availability continue to drive the popularity of offline distribution.

The online distribution channel is expected to be expand at the fastest CAGR of 5.0% from 2019 to 2025, attributed to the availability of newest trends, rarest brands and affordable prices with big discounts. In addition, most of these online shopping spaces have collaboration with banks and various payment modes and offer extra discounts when payments are made using specific methods. Banks and other payment channels have been promoting themselves via these e-commerce websites, doing extra marketing and boosting overall sales.

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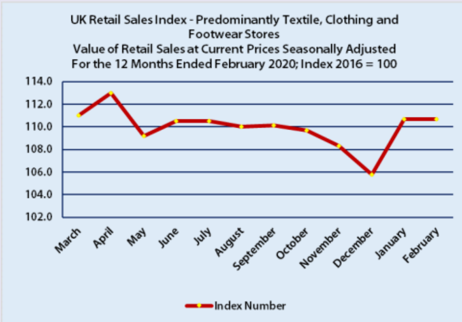

Fig.2 UK Retail Sales Index

> *"Figures from the Office for National Statistics ("ONS") show in the three months to February 2020, the quantity bought in retail sales fell for the fourth consecutive month by 0.6%."*

UK Retail Spending

Figures from the Office for National Statistics ("ONS") show in the three months to February 2020, the quantity bought in retail sales fell for the fourth consecutive month by 0.6%.

When compared with the same month a year earlier, February 2020 remained flat; the lowest year-on-year growth rate since March 2013 at negative 1.6%.

In March 2020, the monthly retail sales volume fell sharply by 5.1%; the largest fall since the series began as many stores ceased trading from 23 March following official government guidance during the coronavirus (COVID-19) pandemic. In March 2020, clothing store sales saw a sharp fall when compared with the previous month, at negative 34.8%.

Online sales as a proportion of all retailing was 19.6% in February 2020, up from the 19.1% reported in January 2020. This category reached a record high of 22.3% in March 2020 as consumers switched to online purchasing following the pandemic.

The most recent consumer spending data from the ONS showed household spending grew by 1.1% in Quarter 3 2019, when compared with Quarter 3 2018. Current price spending increased by 0.7% in Quarter 3 2019 compared with Quarter 2 2019.

Regarding the UK's economic outlook prior to the start of the global pandemic, PwC stated, "Consumer spending has continued to drive the economy, helped by stronger real earnings growth over the past year. But the housing market has cooled and business investment has been on a declining trend as a result of Brexit-related uncertainty. Employment also fell back slightly in the third quarter from previous record highs. We anticipate consumer price inflation to remain around or slightly below 2% along with the expectation that the Bank of England will keep interest rates on hold until the situation on both Brexit and the global economy is clearer."

- Economic Impact of Covid-19 –

The spread of coronavirus has left businesses around the world counting costs, with many investors fearing the global pandemic 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 and an increasing number of countries are implementing stimulus in the hopes of reviving their economies.

The world's economy could grow at its slowest rate since 2009 this year due to the coronavirus outbreak, according to the Organisation for Economic Cooperation and Development. The think tank has forecast growth of just 2.4% in 2020, down from 2.9% in November. It also said that a "longer lasting and more intensive" outbreak could halve growth to 1.5% in 2020 as factories suspend their activity and workers stay at home to try to contain the virus

Effect on Global Demand

Restaurants, cinemas and shops around the world have emptied, while flights, road traffic and energy use have fallen steeply. Oil is at its lowest

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price in almost 20 years and the value of gold is plummeting. Retail sales are following a similar pattern. The spread of coronavirus is leading to a decline in global consumer spending, the heart of global economic activity. Moreover, many countries are seeing employee layoffs on a large scale, which will result in more people being vulnerable to a pullback in consumer spending.

Possible Future Scenarios

According to McKinsey, as of now there are two primary possible scenarios as to how the effect of coronavirus might unfold on the global economy in the coming weeks/months.

Delayed Recovery (Scenario 1) - In this scenario, new case counts in the Americas and Europe rise until mid-April. Asian countries peak earlier; epidemics in Africa and Oceania are limited.

Economic Impact – Large scale quarantines, travel restrictions and social-distancing measures drive a sharp fall in consumer and business spending until the end of Q2, producing a recession.

Although the outbreak comes under control in most parts of the world by late in Q2, the self-reinforcing dynamics of a recession kick in and prolong the slump until the end of Q3. Consumers stay home, businesses lose revenue and lay off workers and unemployment levels rise sharply. Business investment contracts and corporate bankruptcies soar, putting significant pressure on the banking and financial system.

Monetary policy is further eased in Q1 but has limited impact, given the prevailing low interest rates. Modest fiscal responses prove insufficient to overcome economic damage in Q2 and Q3. It takes until Q4 for European and US economies to see a genuine recovery. Global GDP in 2020 falls slightly.

Prolonged Contraction (Scenario 2) - In this scenario, the epidemic does not peak in the Americas and Europe until May. The virus does not prove to be seasonal, leading to a long tail of cases through the rest of the year. Africa, Oceania, and some Asian countries also experience widespread epidemics.

Economic Impact - Demand suffers as consumers cut spending throughout the year. In the most affected sectors, the number of corporate layoffs and bankruptcies rises throughout 2020, feeding a self-reinforcing downward spiral.

The financial system suffers significant distress, but a full-scale banking crisis is averted because of banks' strong capitalisation and the macroprudential supervision now in place. Fiscal and monetary-policy responses prove insufficient to break the downward spiral.

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