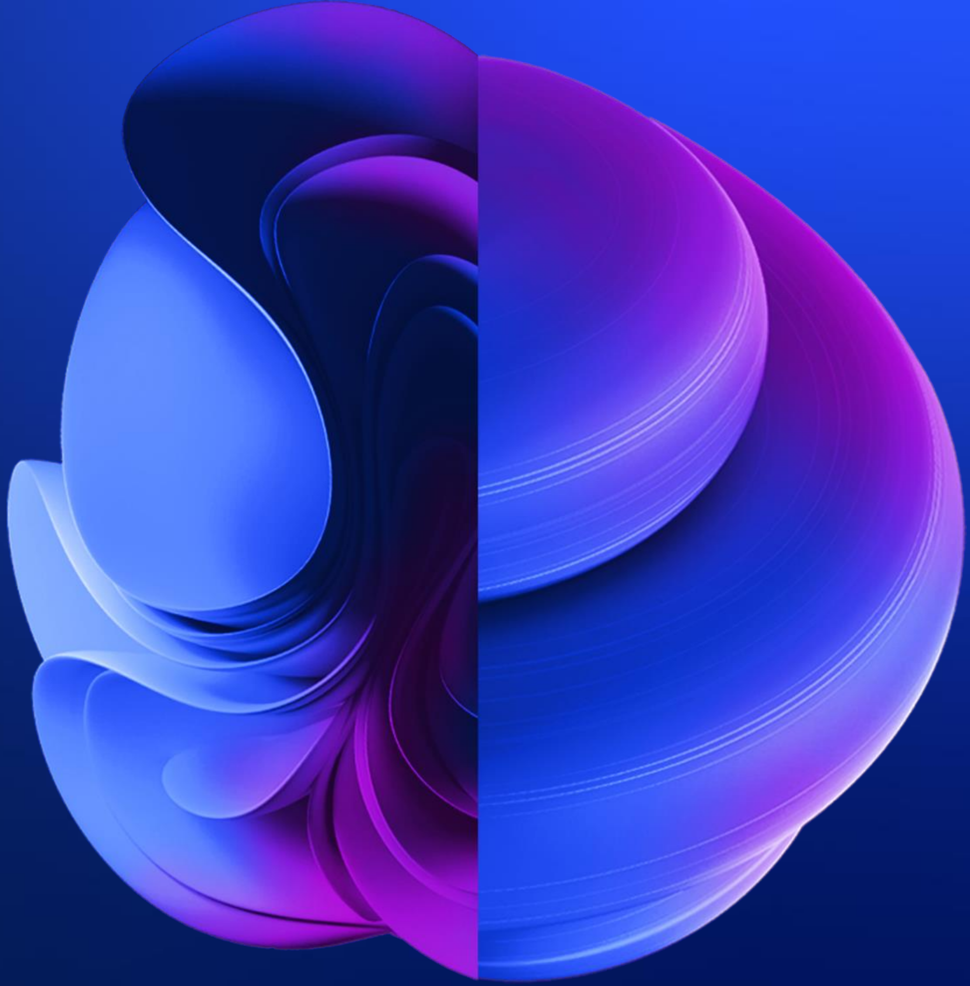
McKinsey Value Intelligence

Quarterly Perspective on Value Creation in European Consumer & Retail

4th Quarter – CPG Issue | Autumn 2024



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Global Summary

Positive news is emerging from various sources, suggesting the global economy might be turning a corner, though substantial risks remain.

Read the full report here

The OECD’s latest Interim Economic Outlook points to resilient growth through the first half of 2024, with declining inflation, as signs the global economy is turning the corner.

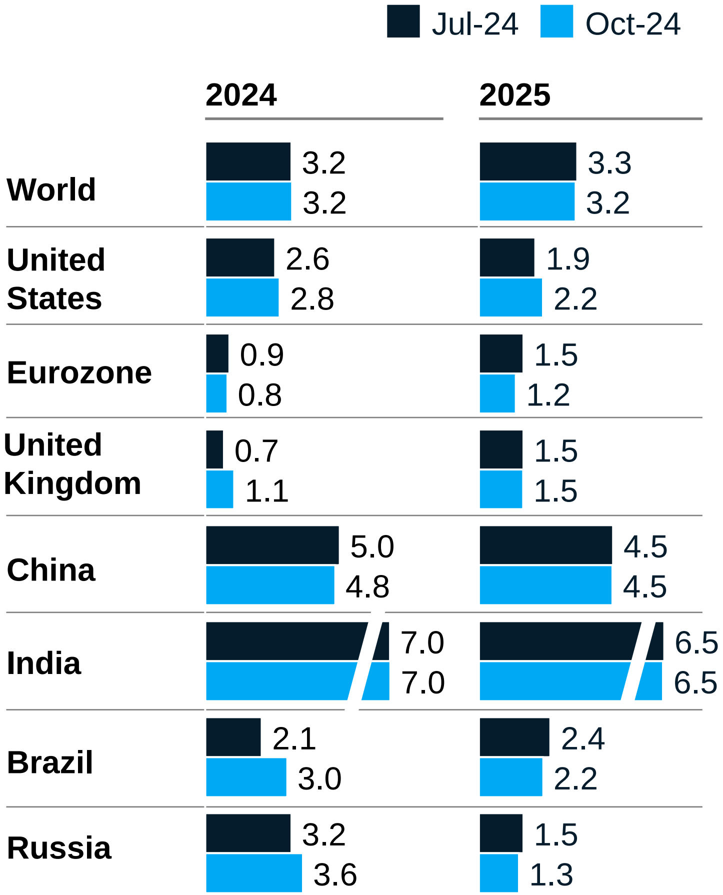
However, the global policy forum acknowledged that significant risks remain. With robust growth in trade, improvements in real incomes, and a more accommodative monetary policy in many economies, the outlook projects global growth at 3.2% in 2024 and 2025.

The OECD sees the global economy improving, supported by a rebound in global trade and easing inflation. Central banks’ strategies are diverging; some are cutting rates, while others continue to raise them. China has announced a significant stimulus package to boost economic growth. In the US, the Federal Reserve cut interest rates by 50 basis points in September and now stands at 4.75 - 5.00%. ECB cut its main rates by 25bps in October, where its key rate is at 3.4%.

The difficult juggling act that central banks continue to perform between controlling inflation and nurturing growth resulted in some contrasting moves this month, with several banks cutting rates to inject a stimulus in September, while others tightened policy as they sought to tame inflation. Although headline inflation is approaching central banks’ targets, core inflation remains elevated.

Real GDP growth: IMF Projections

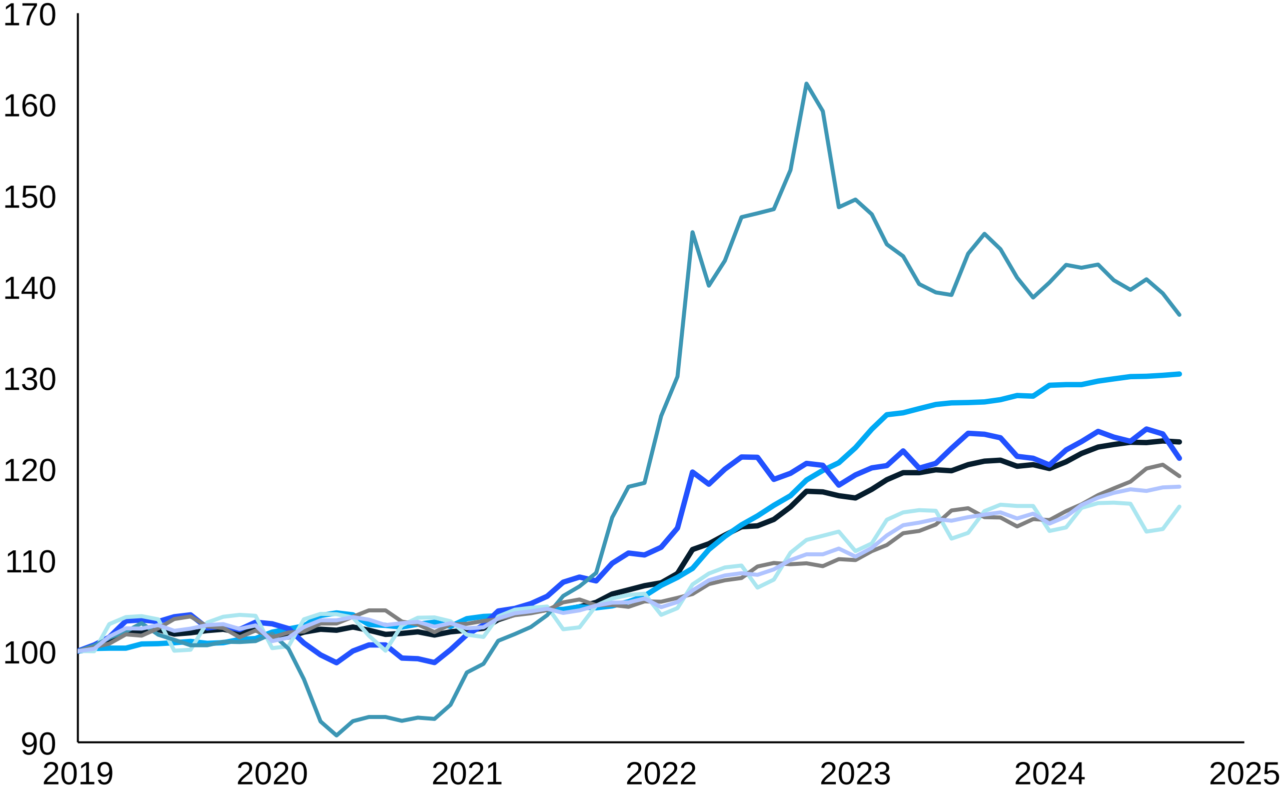
Percent



Source: GEI – September 2024

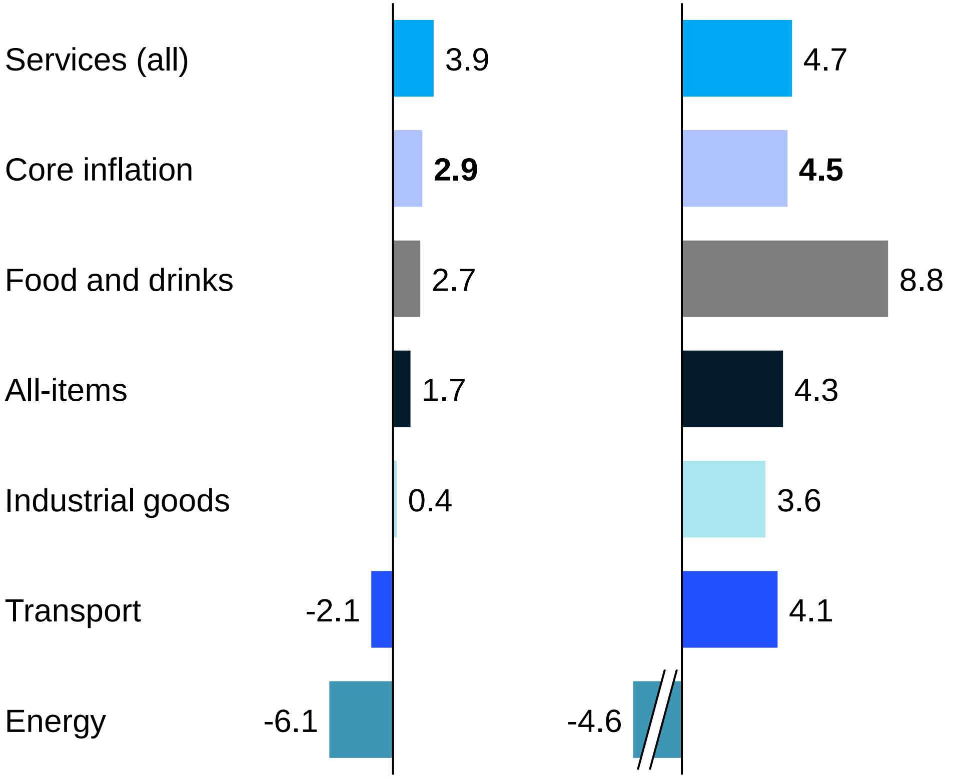
Eurozone inflation was broadly stable, at 1.7% in September; core inflation is still high at 2.9% due to stubborn dynamics in services

Harmonized Index of Consumer Prices (Eurozone)
Index (Jan 2019=100%)



Change (%)
Sep 2023 – 2024

Compare:
Sep 2022 – 2023



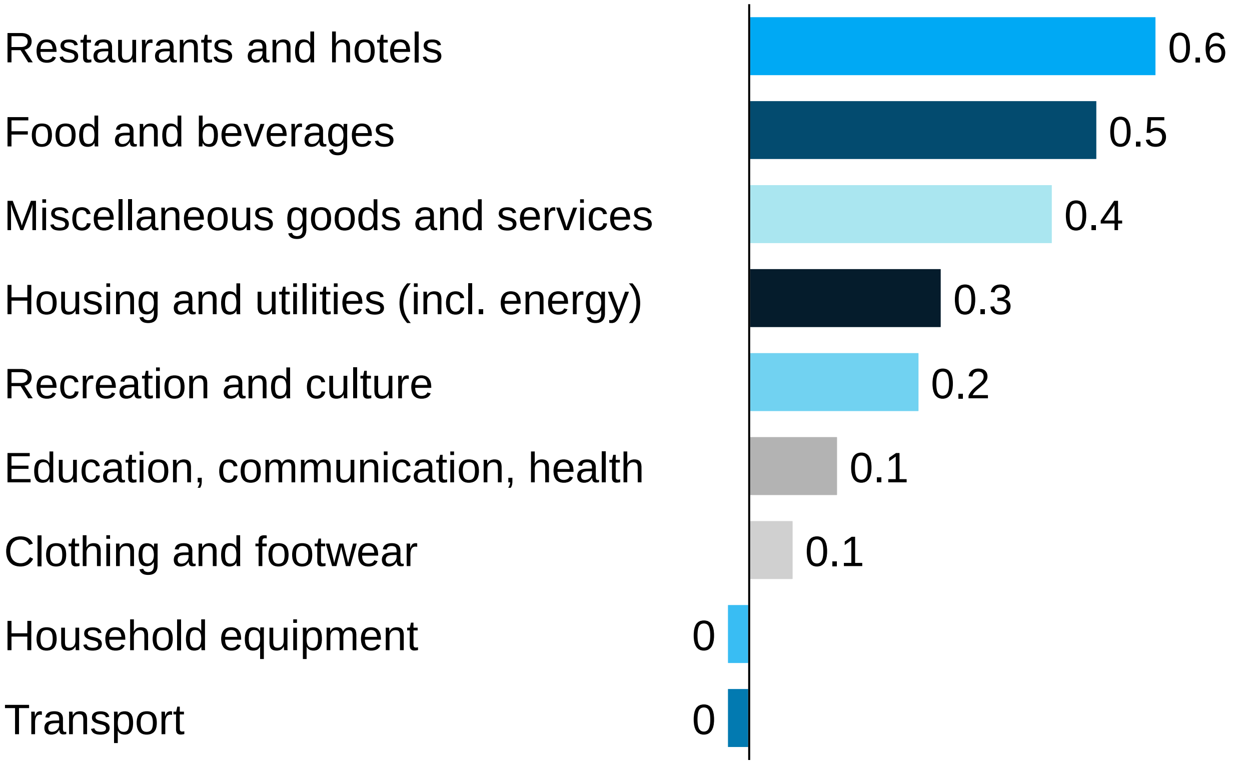
1. Overall index excluding food, energy, alcohol and tobacco

Source: Eurostat

Services have remained key contributor to Eurozone inflation; goods have continued their declining inflationary trend

Contribution to Eurozone annual inflation of 1.7%

Percentage points contribution



Eurozone inflation was 1.7% in September, down from August's reading.

The fall was driven by slower dynamics in the food and energy components. Core inflation was flat at 2.9%, while services inflation remained stubbornly high at 3.9% and non-energy industrial goods in negative territory.

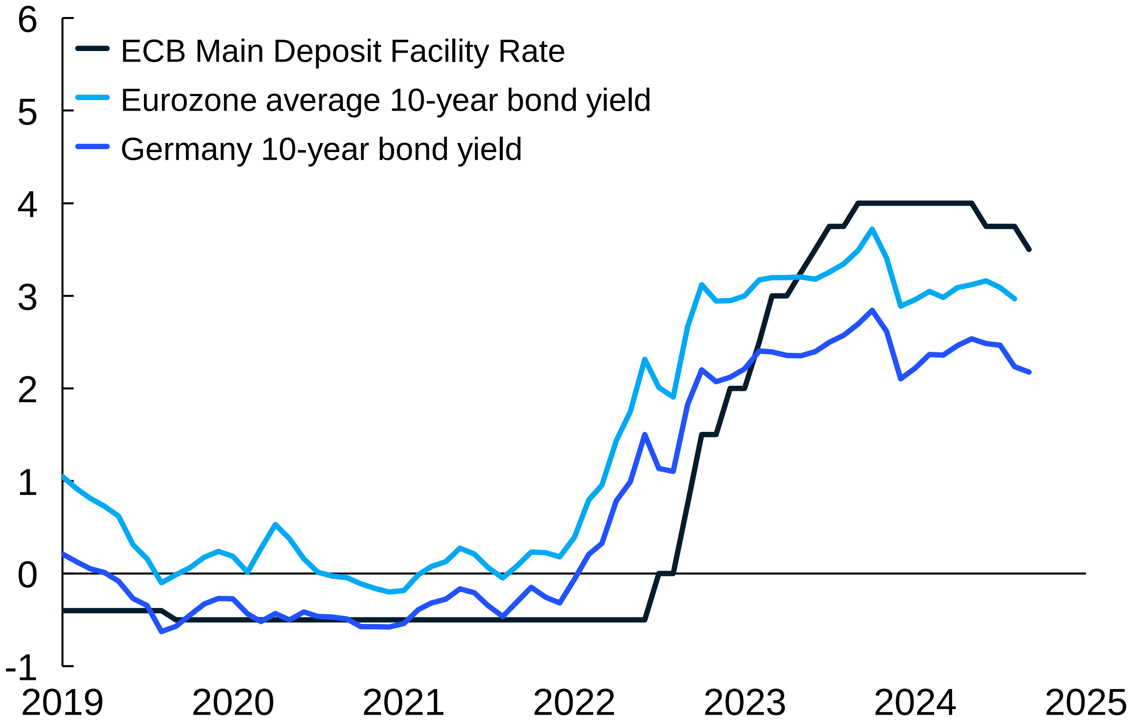
Disinflation is expected to continue, albeit at slower pace. ECB forecasts inflation to drop gradually to its target: headline inflation is projected to be 2.5% in 2024, and 2.2% in 2025, unchanged from September’s projections

ECB cut its main rates by 25bps in October, where its key rate is at 3.4%, down from 4.5% in September 2023

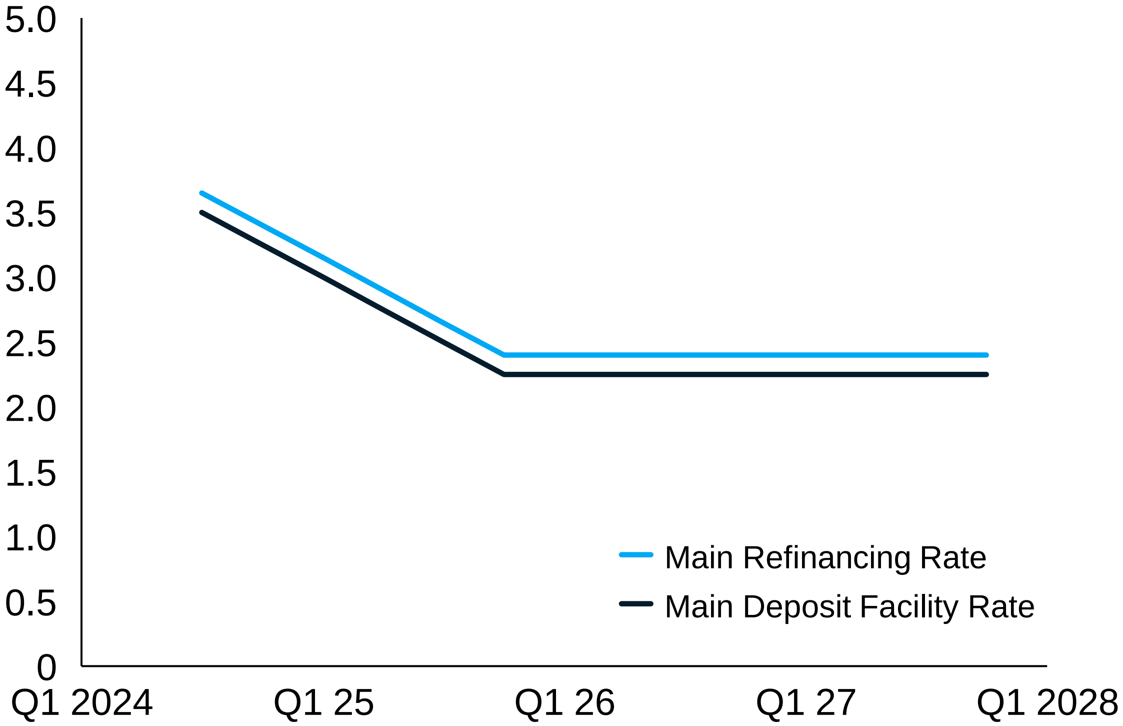
Source: Eurostat

The ECB cut its policy rates at its June and September meetings by 25 basis points each

Eurozone: 10-year bond yield and the ECB main interest rate
Percent, monthly through September 2024

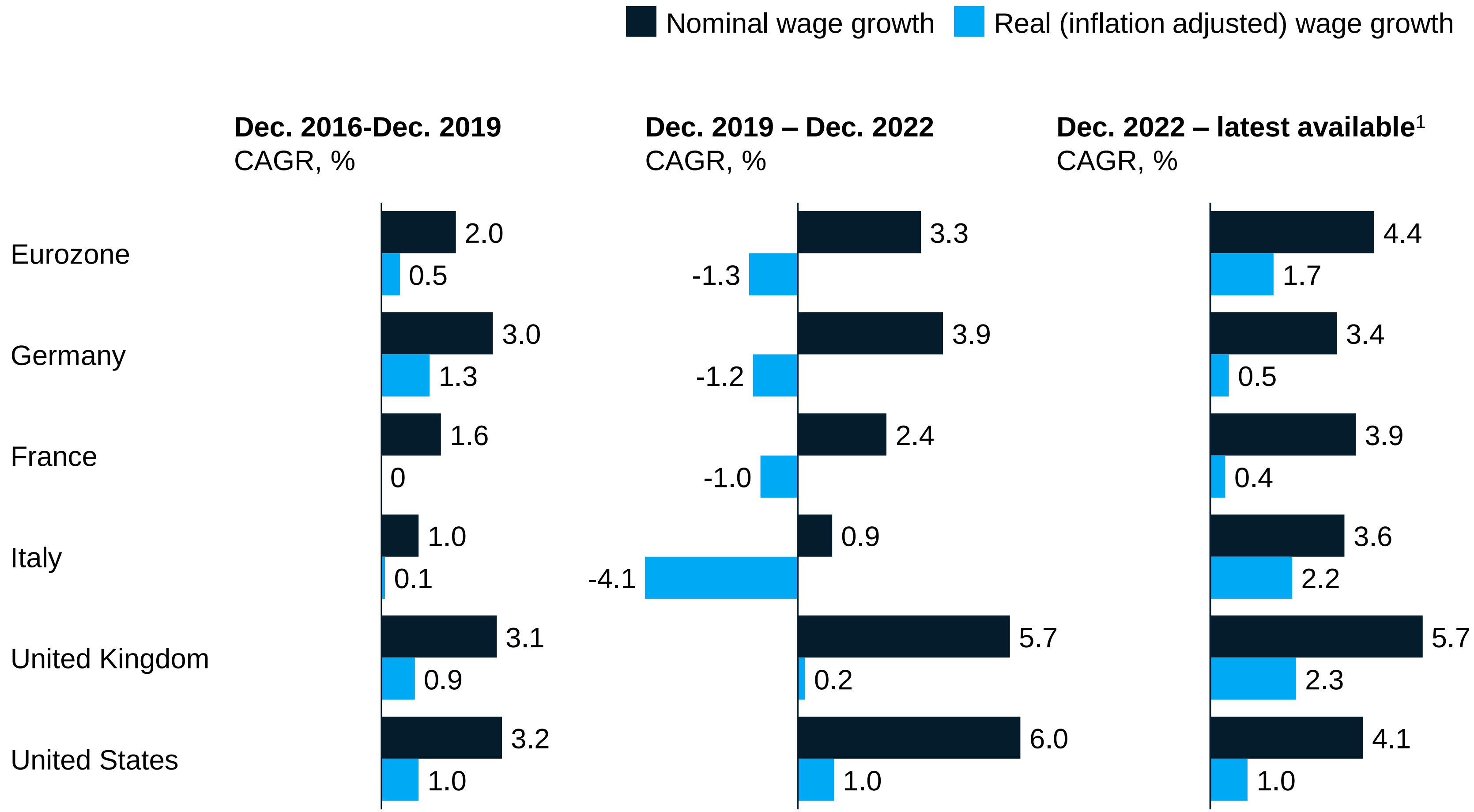


ECB Survey of Monetary Analysts: Expected Policy Rates
Percentage points, as of September 2024



Source: European Central Bank; Tullett Prebon Information; McKinsey analysis

Nominal wage growth in the Eurozone has been higher lately, visibly surpassing inflation



	Dec. 2016-Dec. 2019 Nominal	Dec. 2016-Dec. 2019 Real	Dec. 2019 – Dec. 2022 Nominal	Dec. 2019 – Dec. 2022 Real	Dec. 2022 – latest available[1] Nominal	Dec. 2022 – latest available[1] Real
Eurozone	2.0	0.5	3.3	-1.3	4.4	1.7
Germany	3.0	1.3	3.9	-1.2	3.4	0.5
France	1.6	0	2.4	-1.0	3.9	0.4
Italy	1.0	0.1	0.9	-4.1	3.6	2.2
United Kingdom	3.1	0.9	5.7	0.2	5.7	2.3
United States	3.2	1.0	6.0	1.0	4.1	1.0

4.5%

ECB forecast of nominal wage growth for **2024**[2] in Eurozone

Compared to expected consumer inflation of **2.5%**, indicates improved real wage growth

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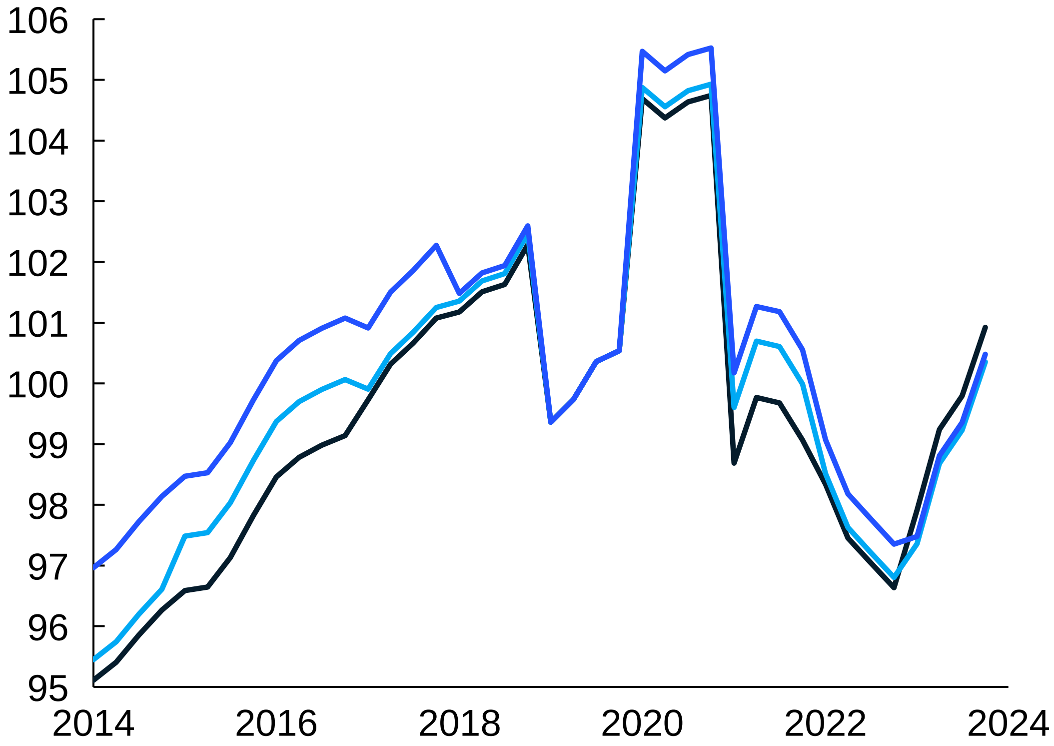
1. US, Italy: August 2024; UK: July 2024; Eurozone, Germany, France: quarterly data through 2024:Q2
2. ECB forecasts as of June 2024

Note: Aggregate wages capture: Italy, France, Germany, Eurozone - total economy; the UK & the US - private sector

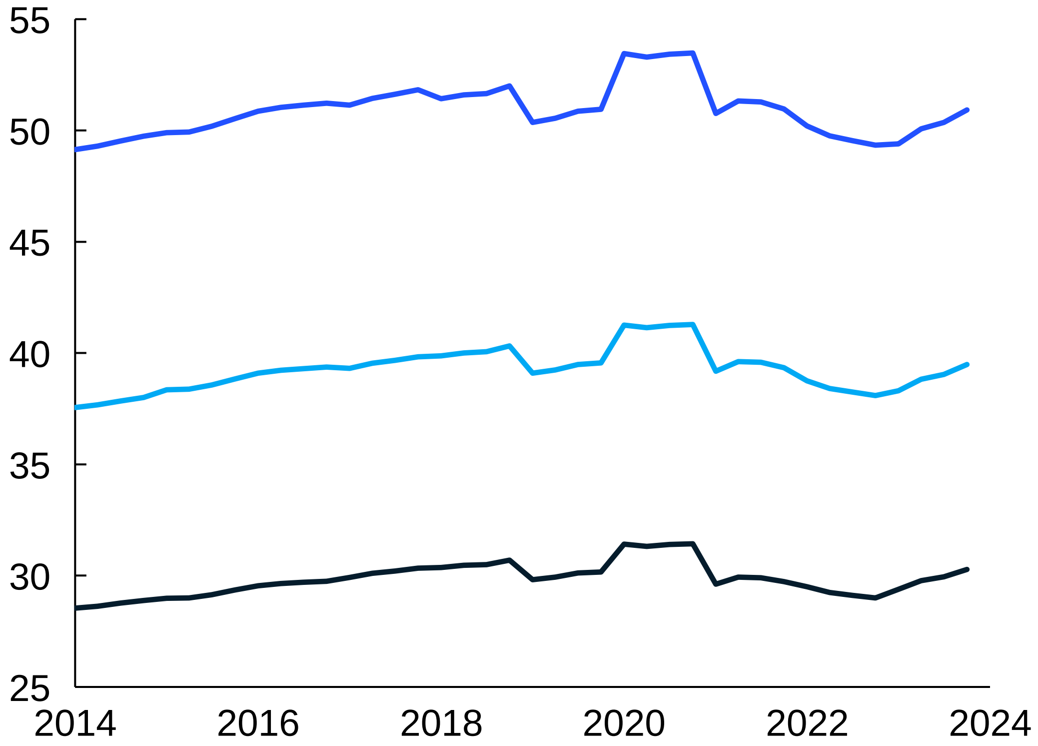
Source: National Statistical Institute of Italy, UK Office for National Statistics; BLS; German Central Bank; French Ministry of Labor/INSEE; European Central Bank; Haver Analytics; McKinsey analysis

Middle 60% of households in Europe continue to recover real purchasing power, as nominal wage increases surpass inflation

Eurozone: Real household income by income quintile
Index 2019=100, through 2023 Q4

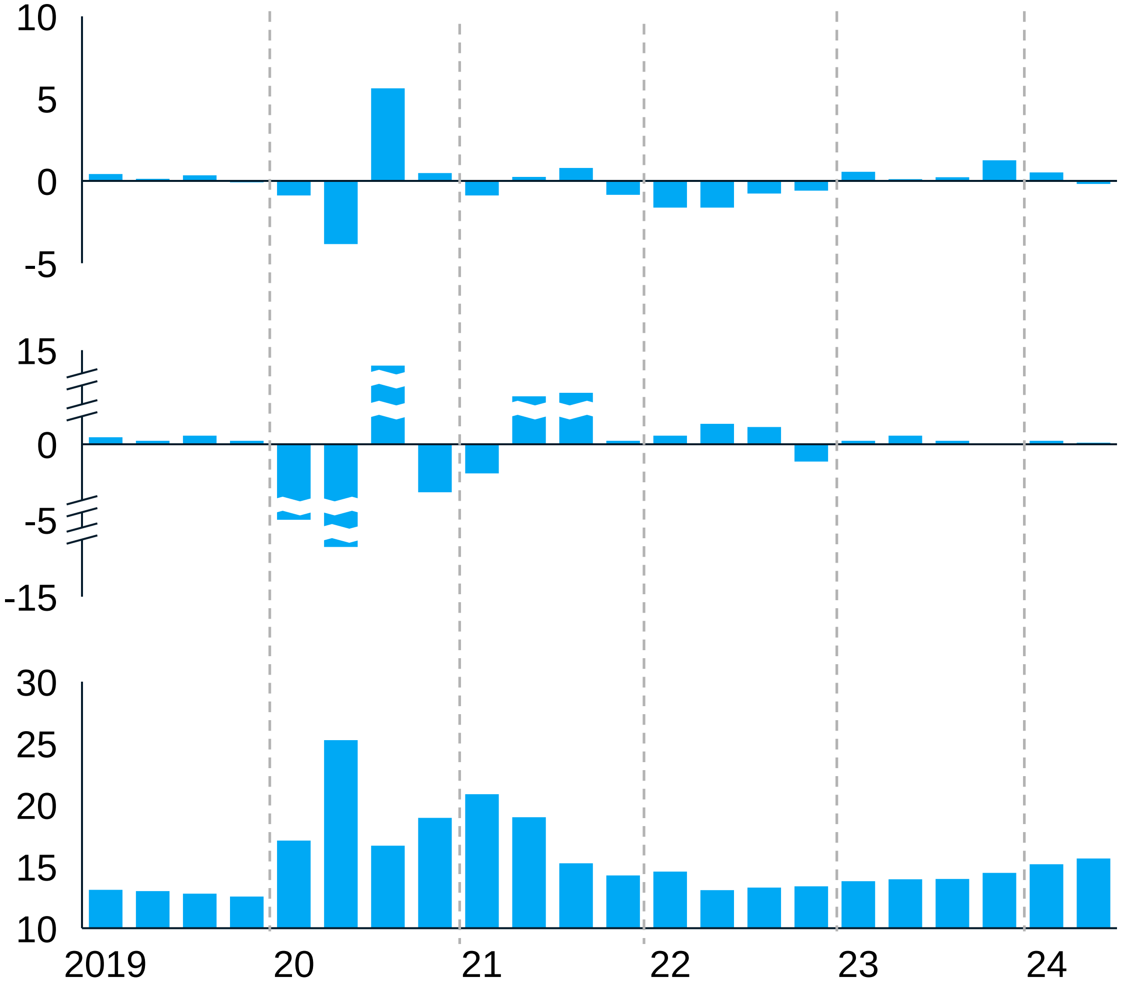


Eurozone: Real household income
2015 Eur, Thousands, through 2024 Q1



Source: Federal Reserve Board, Bureau of Economic Analysis, Bureau of Labor Statistics, NBER, McKinsey analysis

Real wage recovery does not translate into higher consumption but greater savings



Change of real wages
Percentage change, q-o-q,

Change of real household consumption
Percentage change, q-o-q

Savings rate
Percentage points, quarterly

Real wages have improved as nominal wage are catching up with high inflation of the last years.

Household consumption is broadly unchanged, even though purchasing power is improving

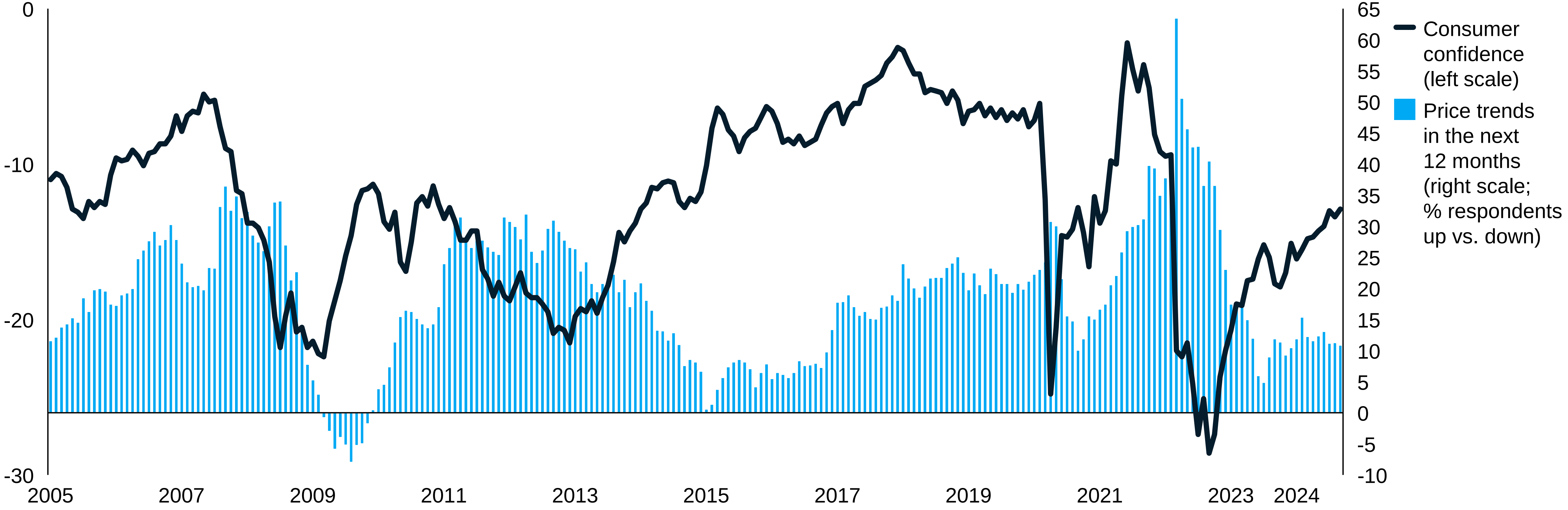
Savings are edging up (~16% in 2024 Q2) due to positive real wage growth and stagnant consumption expenditures

Source: Eurostat

Consumer sentiment consistently suggests worsening spending momentum, amid lower inflation but a weaker labour market

Consumer confidence indicator
Percent balance, SA, through September 2024

Consumer expectations of price trends in the next 12 months[1]
Percent balance, SA, through September 2024



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1. Based on question: "By comparison with the past 12 months, how do you expect that consumer prices will develop in the next 12 months?". The result is calculated as difference in percent shares of answers: B = (MM + ½M) − (½P + PP); where MM = increase more rapidly; M = increase at the same rate; P = stay about the same; PP = fall

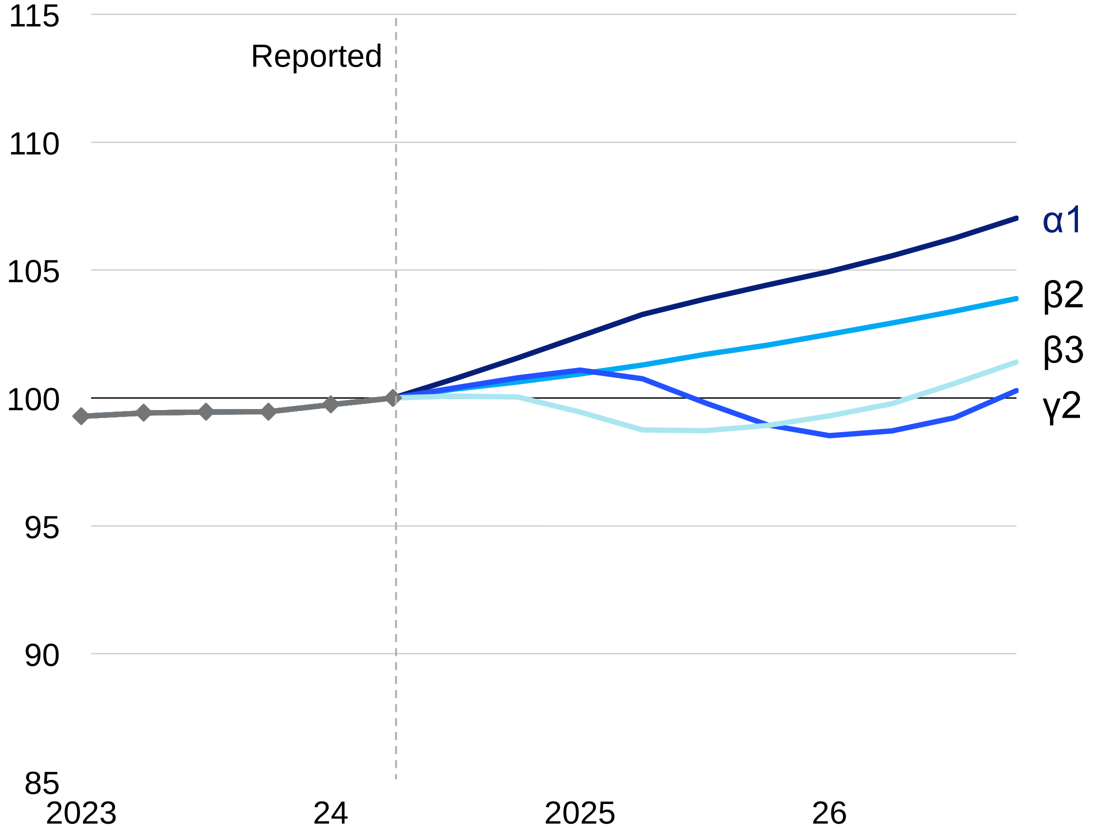
Source: European Commission; McKinsey analysis

Eurozone GDP Growth

McKinsey Macro & Markets Scenarios, September 2024

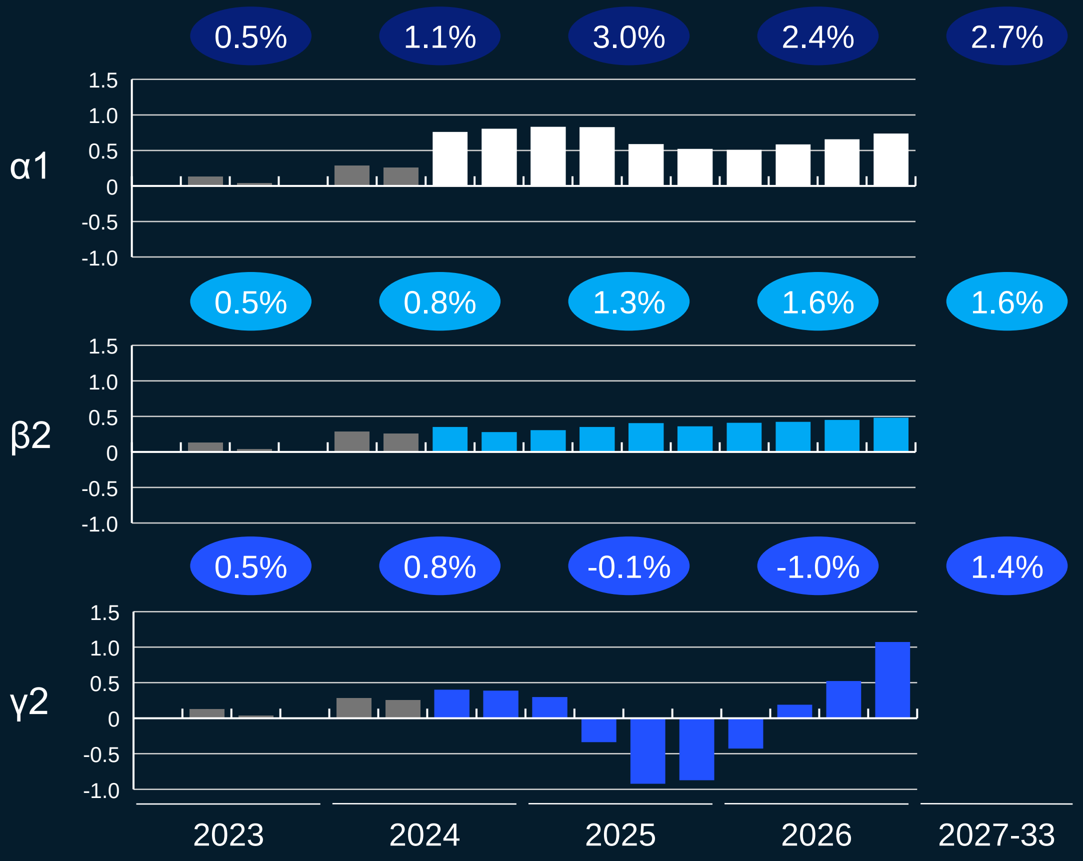
Real GDP

Indexed, 2024 Q1=100



Real GDP

Percent change, quarterly, annual, and CAGR



Source: National statistics agencies; McKinsey analysis, in partnership with Oxford Economics

Real Disposable Income

In early 2024, growth of real disposable income accelerated, driven by ongoing disinflation and robust labour markets.

Unemployment remains near historic lows, and tight labour markets have facilitated nominal wage growth exceeding 4.5% year-on-year in Q2 2024. With consumer inflation around 2.5%, this scenario points to improving real wage growth and enhanced purchasing power.

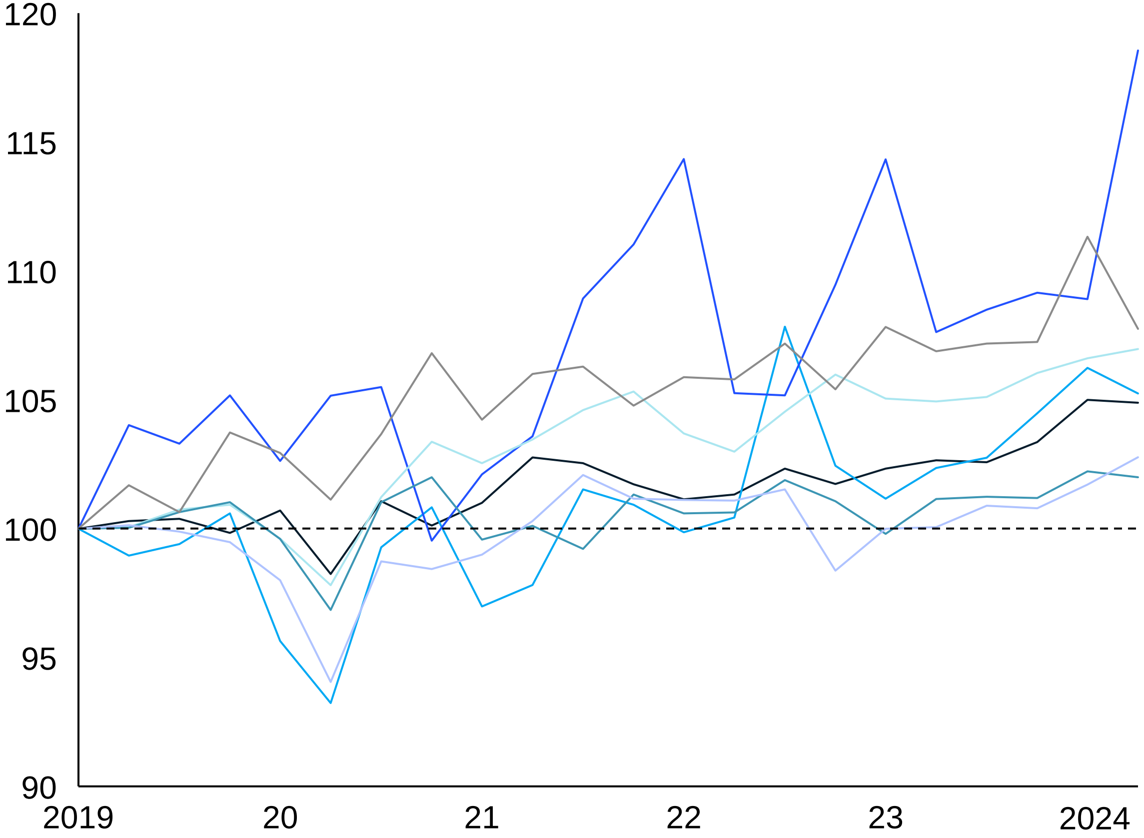
Real incomes are anticipated to continue rising, making up for the previous inflation surge. However, recent high-frequency data indicates moderate easing following the increase in the first half of the year. Additionally, deteriorating employment expectations among companies could signal the end of the period characterized by excess labour demand.

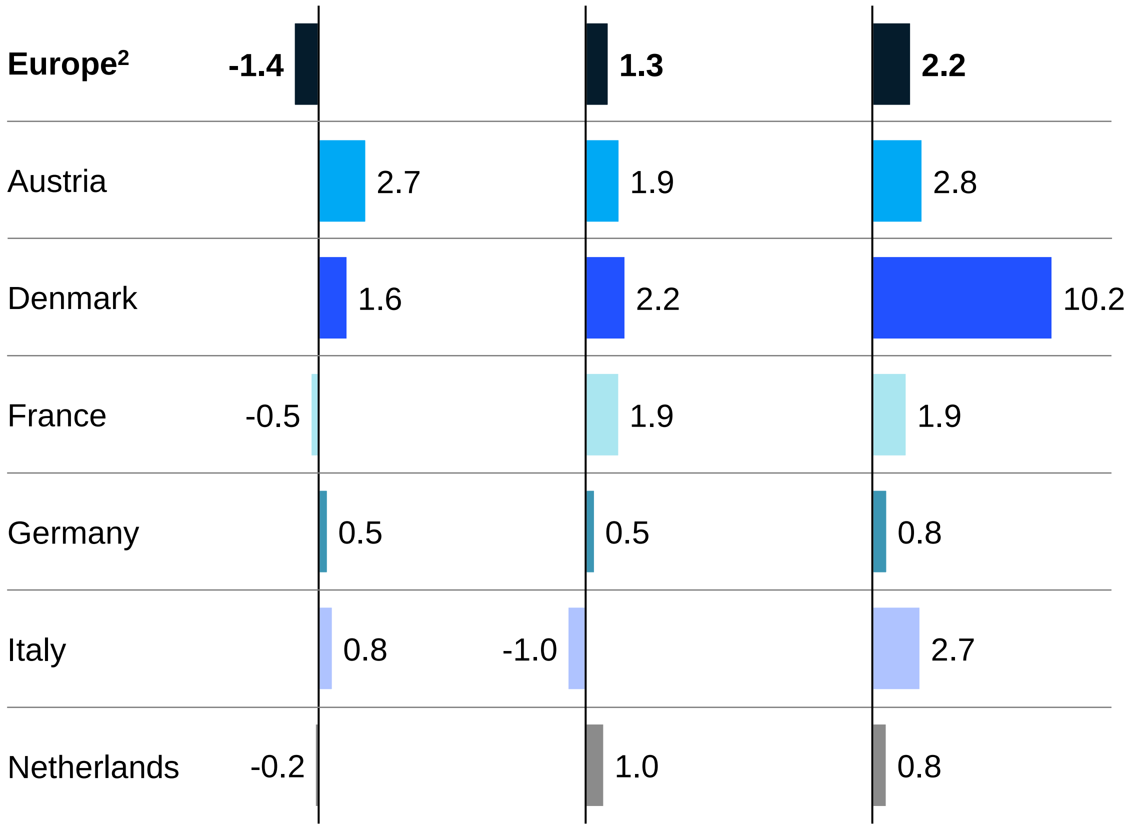
Real disposable income (1/2)

Real incomes have started recovering as nominal wage growth has been exceeding inflation

Personal disposable income, real[1]

Index (2019 Q1=100), Quarterly





	Change (%) Q2 21 – Q2 22	Change (%) Q2 22 – Q2 23	Change (%) Q2 23 – Q2 24
Europe[2]	**-1.4**	**1.3**	**2.2**
Austria	2.7	1.9	2.8
Denmark	1.6	2.2	10.2
France	-0.5	1.9	1.9
Germany	0.5	0.5	0.8
Italy	0.8	-1.0	2.7
Netherlands	-0.2	1.0	0.8

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1. Eurozone, Austria: data for Q1 2024 estimated by Oxford Economics
2. All European Union Member States in the euro area

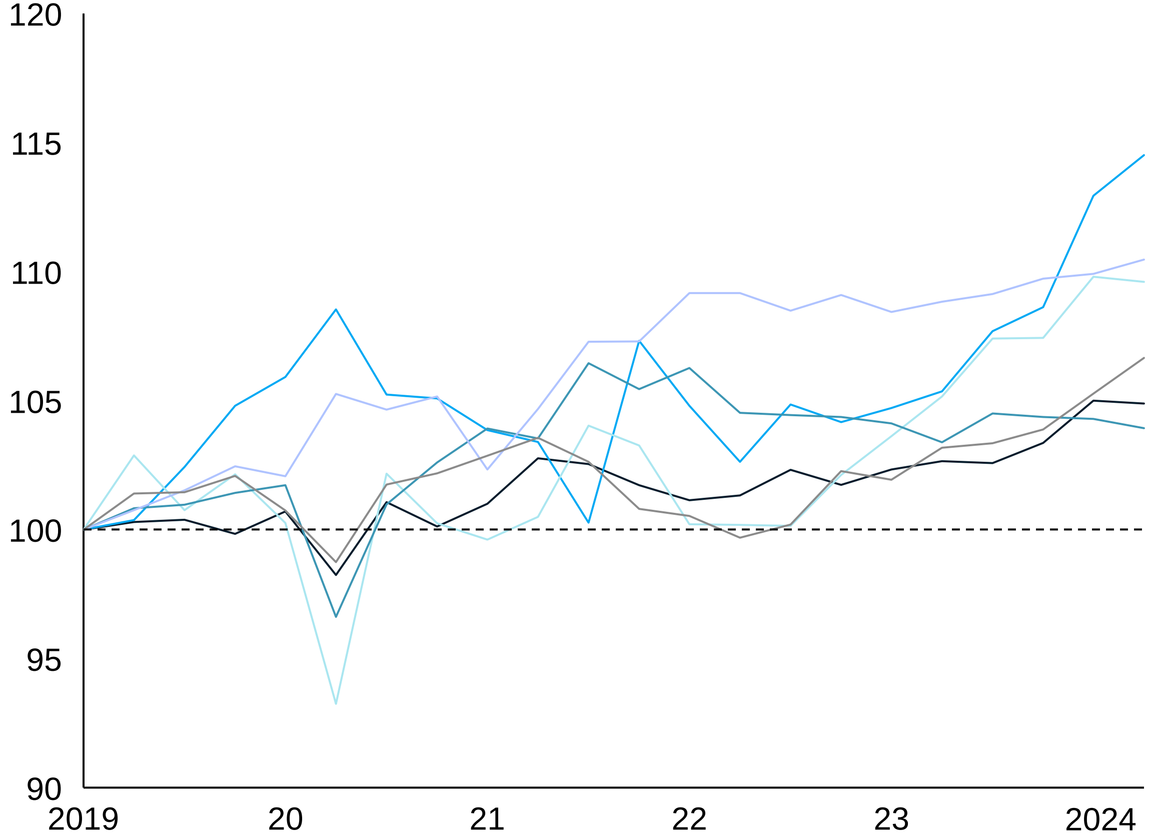
Source: Oxford Economics, National Federal Statistical Office

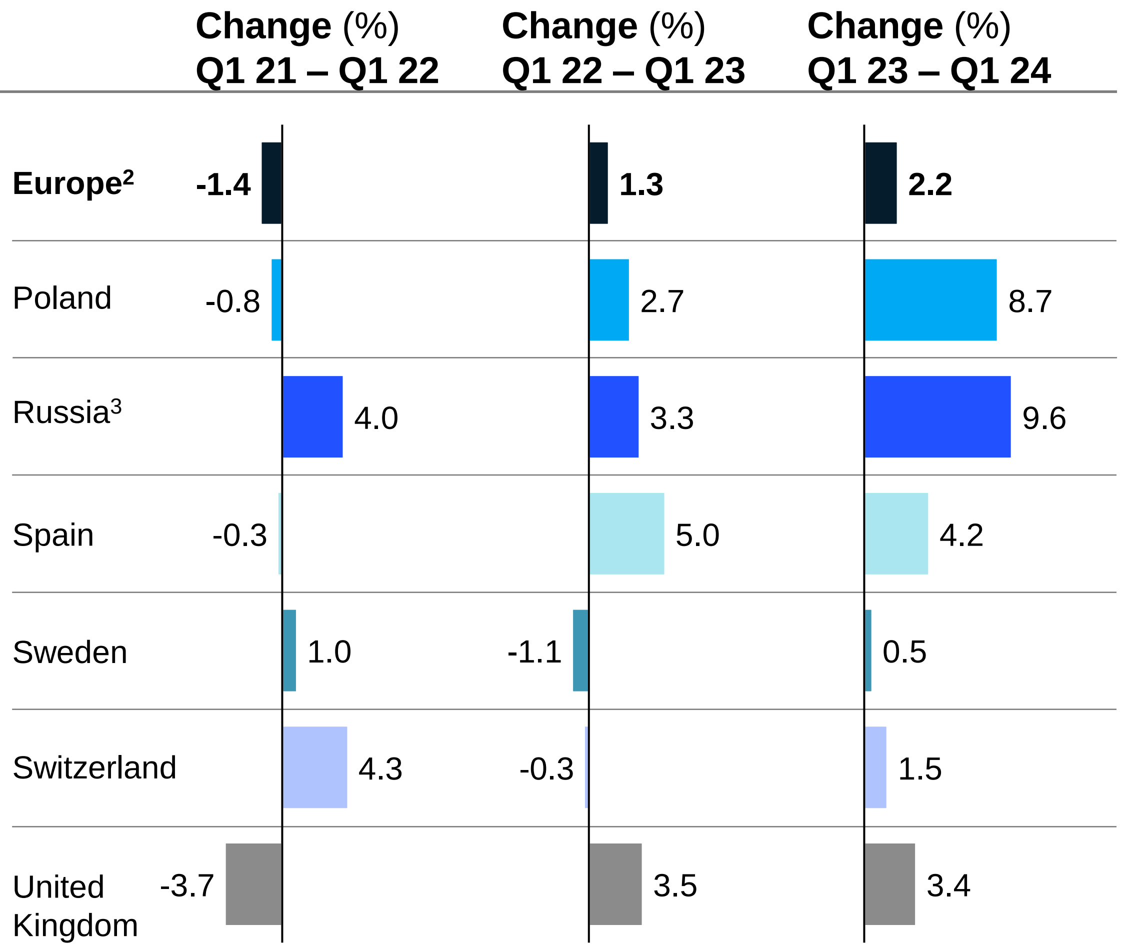
Real disposable income (2/2)

Real incomes have started recovering as nominal wage growth has been exceeding inflation

Personal disposable income, real[1]

Index (2019 Q1=100), Quarterly





1. Poland, Sweden: data for Q1 2024 estimated by Oxford Economics; 2. All European Union Member States in the euro area 3. Index data for Russia not available

Source: Oxford Economics, National Federal Statistical Office

Consumer Confidence

Eurozone consumer confidence has shown moderate increases from June to September, except for in France, Italy, and Denmark. Over the past three months, this gradual recovery in consumer confidence has been supported by slowing inflation, a resilient labour market with historically low unemployment, and improving real incomes.

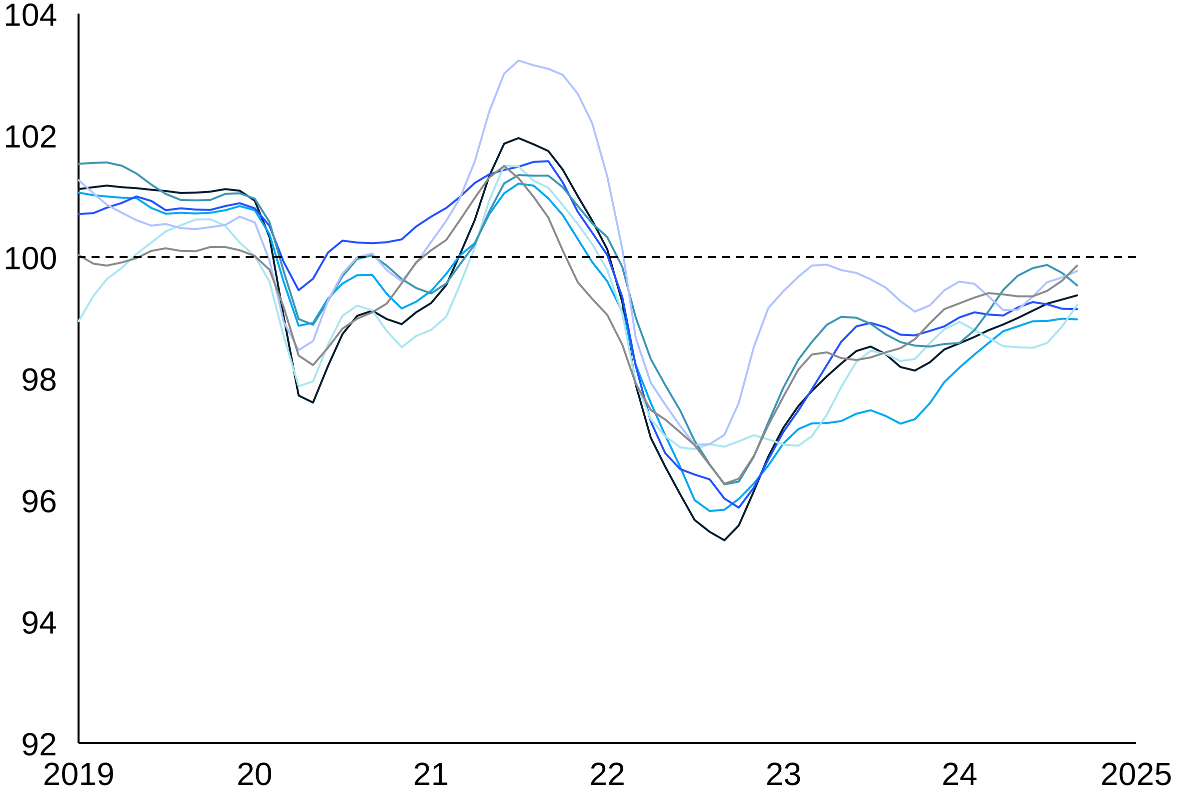
Confidence is further bolstered by decreasing interest rates, which positively impact mortgage and consumer credit rates. However, household saving ratios have stabilized above pre-pandemic levels, indicating lower propensity to spend. Given the uncertain outlook and rising geopolitical tensions, more cautious consumer spending behaviour may continue.

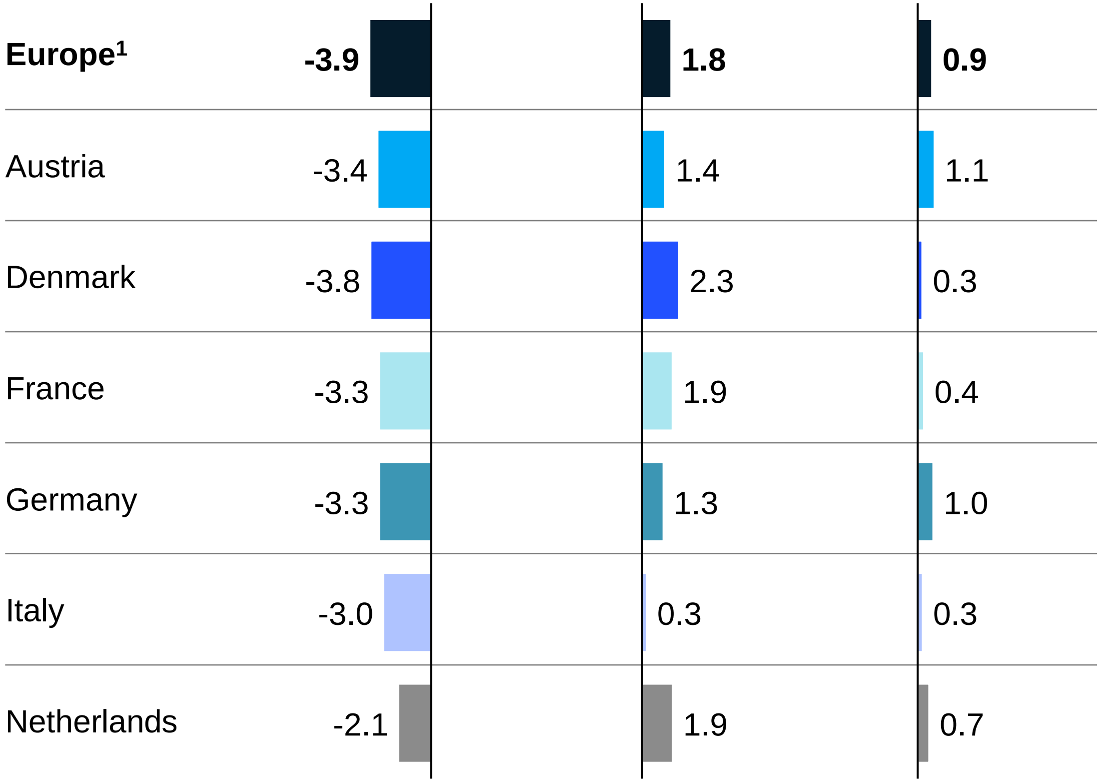
Consumer Confidence (1/2)

Consumer confidence has bounced back in most European countries, yet remains below historical averages

Consumer Confidence

Index, Monthly





	Change (%) **Dec 21 – Dec 22**	**Change** (%) **Dec 22 – Dec 23**	**Change** (%) **Dec 23 – Sep 24**
Europe[1]	**-3.9**	**1.8**	**0.9**
Austria	-3.4	1.4	1.1
Denmark	-3.8	2.3	0.3
France	-3.3	1.9	0.4
Germany	-3.3	1.3	1.0
Italy	-3.0	0.3	0.3
Netherlands	-2.1	1.9	0.7

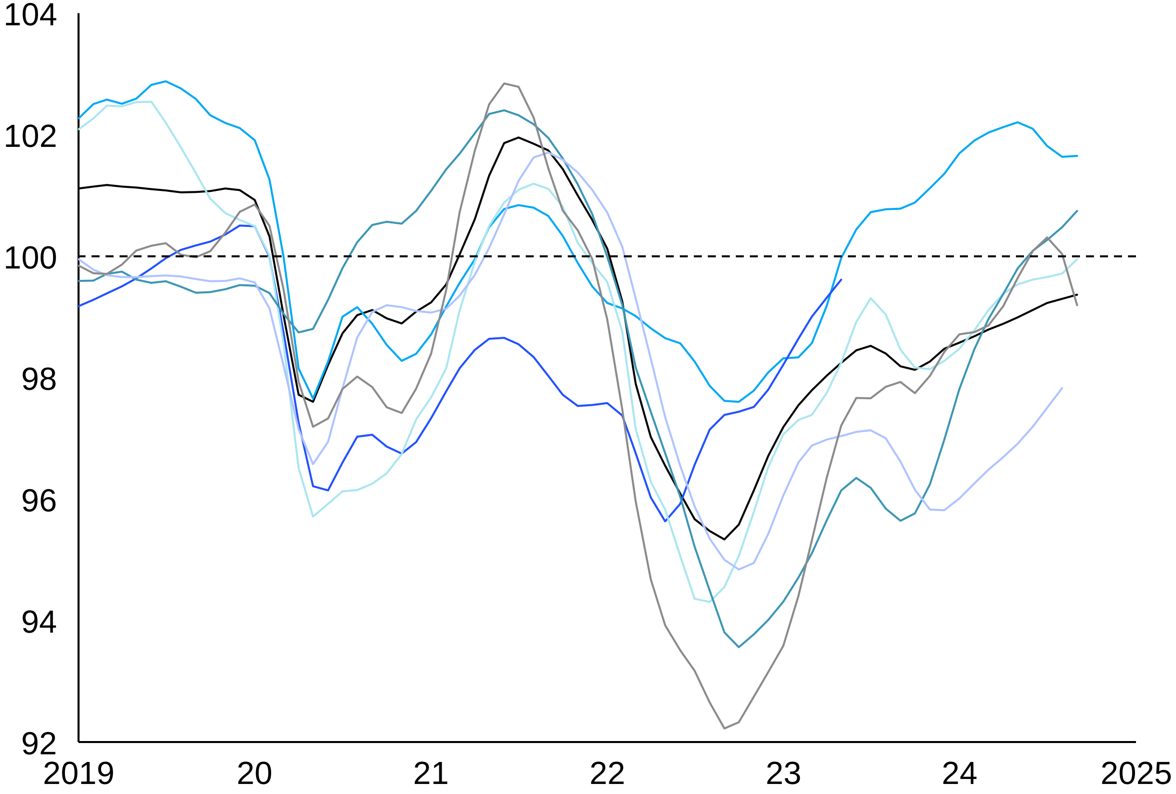
[1] All European Union Member States in the euro area; to December 2023

Source: OECD

Consumer Confidence (2/2)

Consumer confidence has bounced back in most European countries, yet remains below historical averages

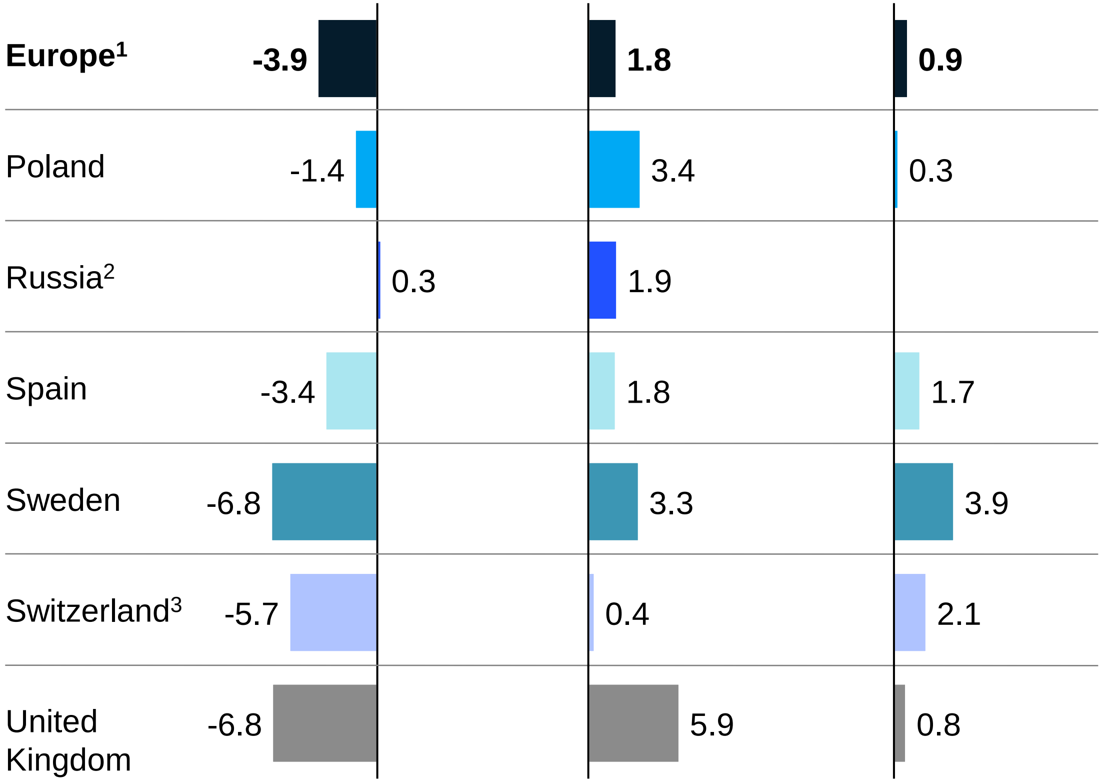
Consumer Confidence
Index, Monthly



Change (%) **Dec 21 – Dec 22**

Change (%) **Dec 22 – Dec 23**

Change (%) **Dec 23 – Jun 24**



1. All European Union Member States in the euro area; 2. Until May 2023; 3. Until February 2024

Source: OECD

Private Consumption

In the second quarter of 2024, the Eurozone's real private consumption increased by 0.7% year-over-year, and 0.3% quarter-over-quarter. Private consumption had already returned to Q4 2019 levels by the third quarter of 2023 and has experienced only moderate growth since then. Growth in nominal terms, which had previously been driven by high price increases, has eased in line with ongoing disinflation.

Hopes for more meaningful recovery did not materialize, with unspectacular consumer spending growth realized in 2024, and only picking up modestly next year. The primary factor restraining consumer spending is previously tight monetary policy affecting credit conditions – easing has not materialized yet in consumer spending. Also, continuously high interest rates have made saving more attractive, so savings rates remain above pre-pandemic levels.

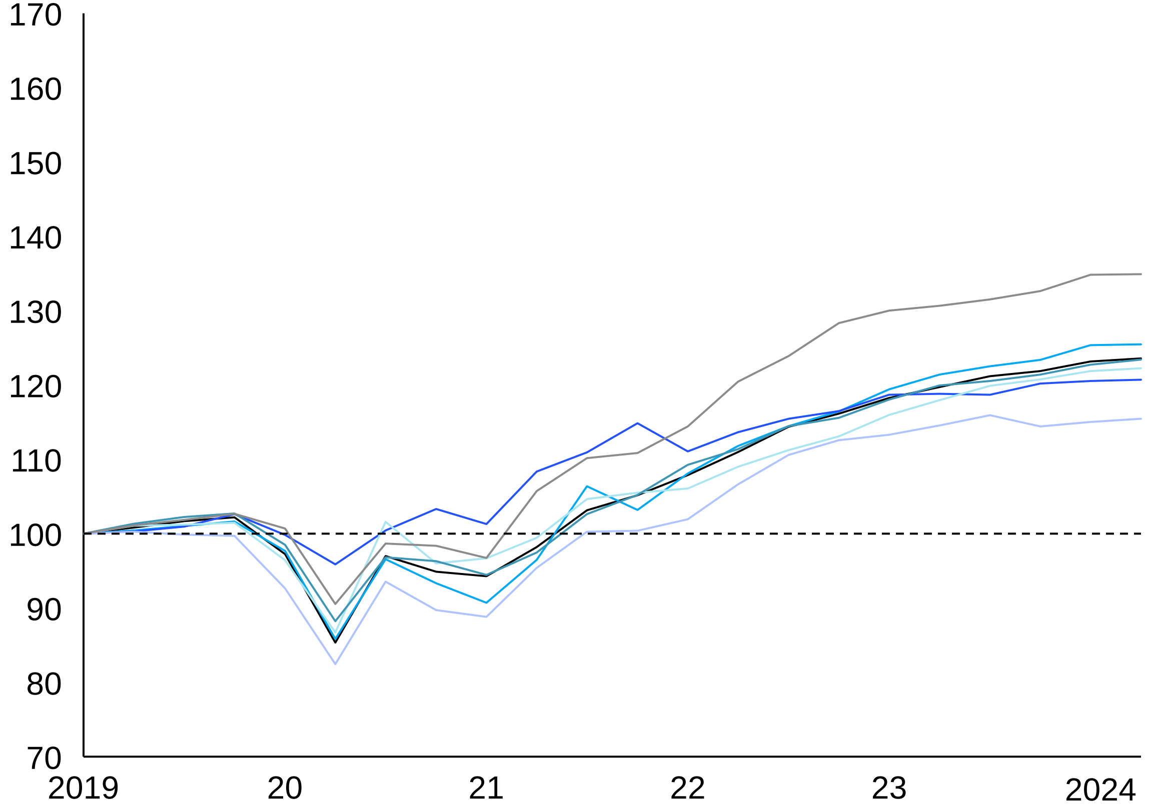
The pace of consumer recovery is likely to align with any easing of ECB policy.

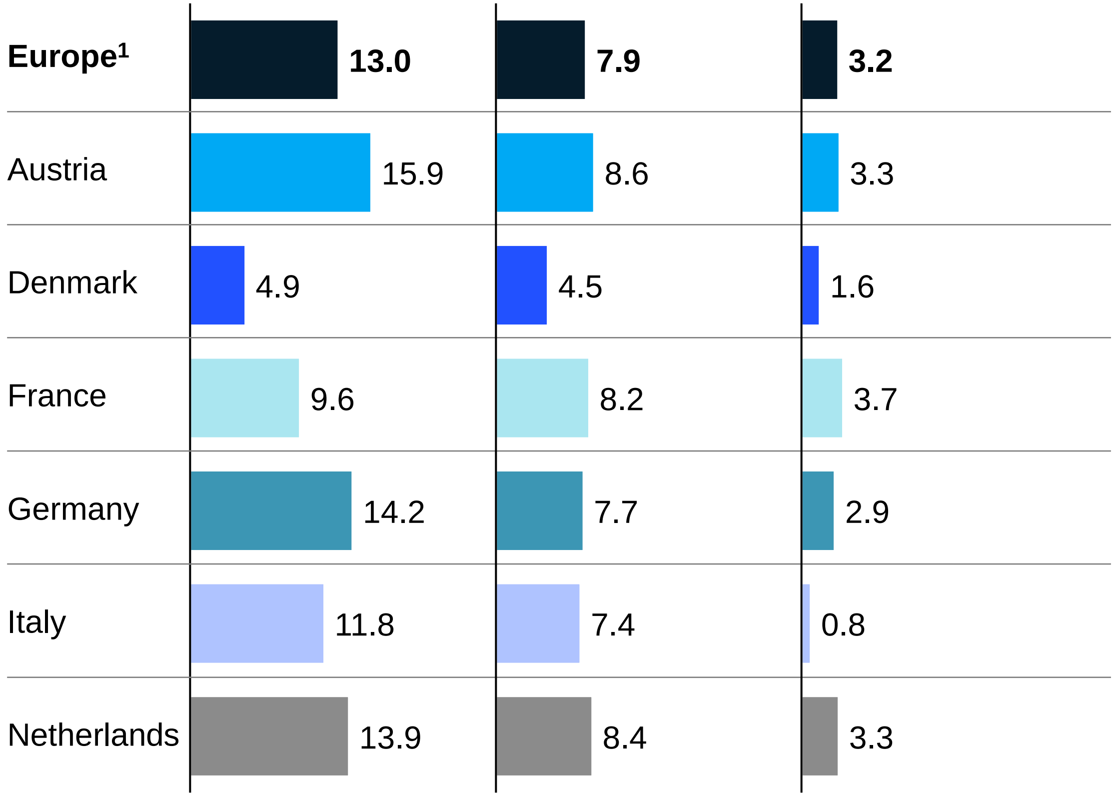
Private Consumption (1/2)

Nominal consumption slowed in the first quarter of 2024, while real consumption remained either stable or declined

Private Consumption

Nominal, Local Currency, Index (2019 Q1 = 100)





	Change (%) **Q2 21 – Q2 22**	**Change** (%) **Q2 22 – Q2 23**	**Change** (%) **Q2 23 – Q2 24**
Europe[1]	**13.0**	**7.9**	**3.2**
Austria	15.9	8.6	3.3
Denmark	4.9	4.5	1.6
France	9.6	8.2	3.7
Germany	14.2	7.7	2.9
Italy	11.8	7.4	0.8
Netherlands	13.9	8.4	3.3

[1] All European Union Member States in the euro area

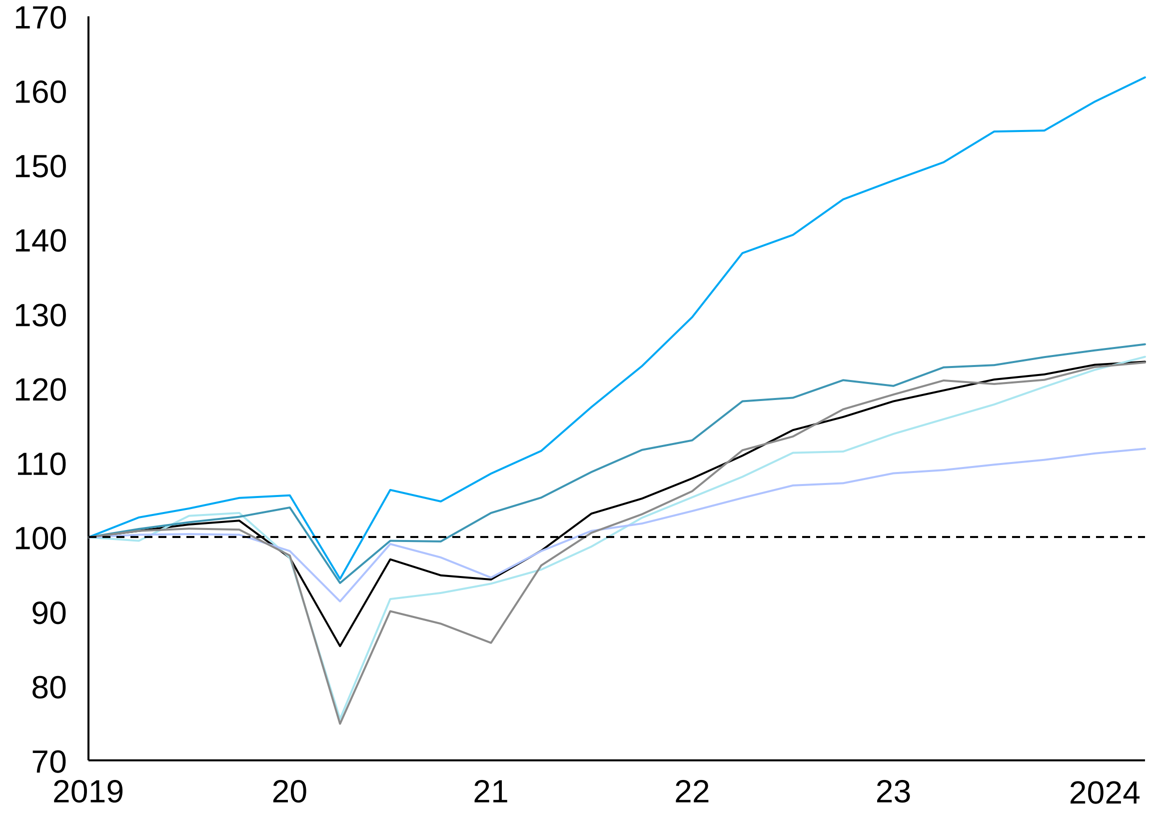
Source: Oxford Economics, National Federal Statistical Office

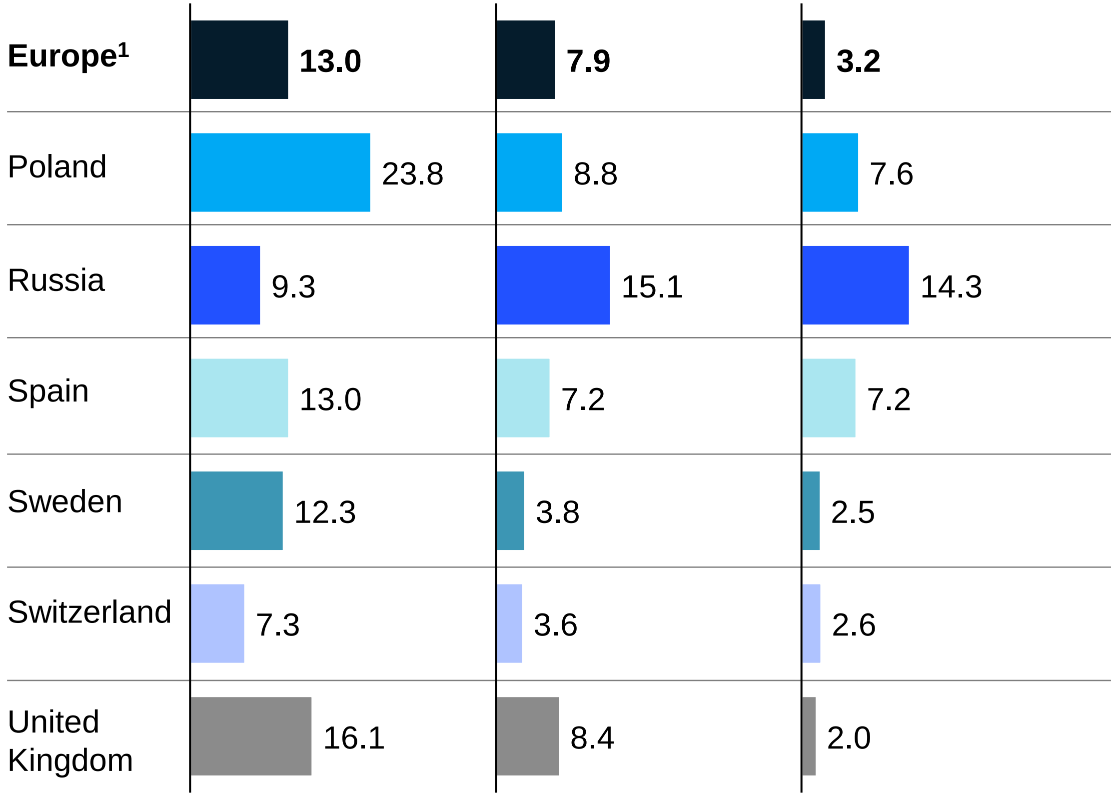
Private Consumption (2/2)

Nominal consumption slowed in the first quarter of 2024, while real consumption remained either stable or declined

Private Consumption

Nominal, Local Currency, Index (2019 Q1 = 100)





	Change (%) **Q1 21 – Q1 22**	**Change** (%) **Q1 22 – Q1 23**	**Change** (%) **Q1 23 – Q1 24**
Europe[1]	**13.0**	**7.9**	**3.2**
Poland	23.8	8.8	7.6
Russia	9.3	15.1	14.3
Spain	13.0	7.2	7.2
Sweden	12.3	3.8	2.5
Switzerland	7.3	3.6	2.6
United Kingdom	16.1	8.4	2.0

1. All European Union Member States in the euro area; index data for Russia not available

Source: Oxford Economics, National Federal Statistical Office

Retail Sales

In 2024, the Eurozone's real retail sales volume has remained stagnant. Following a 0.6% annual decline in 2023, retail sales volume has stayed slightly above pre-pandemic levels but remains below the "post-lockdown" recovery peaks of 2021-22. Nominal spending, which had previously been driven by higher prices, has only seen moderate growth.

The weak growth in retail sales reflects continued subdued household sentiment. Despite a slowdown in inflation, consumers remain cautious due to the higher cost of living. Additionally, still high interest rates continue to increase credit costs and dampen spending.

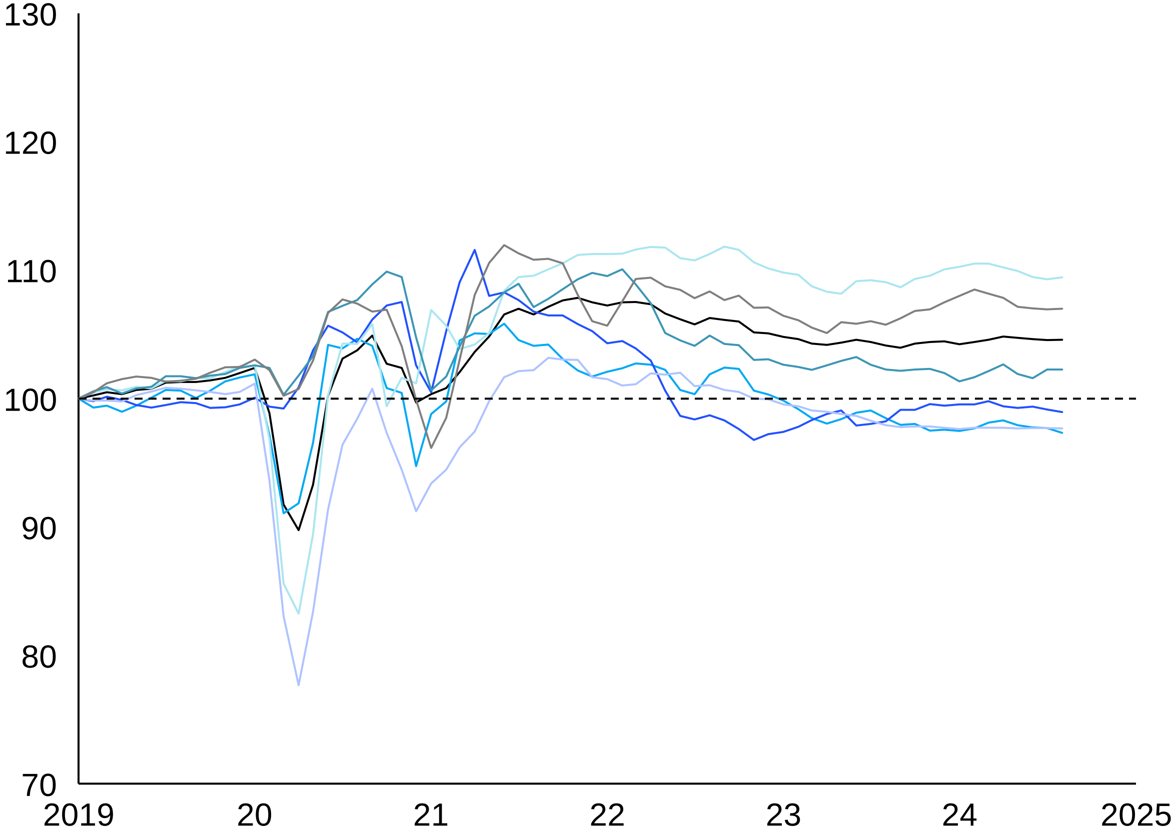
Any improvement in retail sales dynamics is likely to depend on a further recovery in purchasing power and an easing of monetary policy.

Retail Sales (1/2)

Stagnation or slight contraction in retail sales volume across most countries in Europe in 2023 and early 2024

Retail Sales

Volume index (Jan 2019=100), 3-months rolling



	Change (%) Dec 21 – Dec 22	Change (%) Dec 22 – Dec 23	Change (%) Dec 23 – Sep 24
Europe[1]	**-2.2**	**-0.6**	**0.1**
Austria	-1.4	-2.7	-0.2
Denmark	-7.6	2.3	-0.5
France	-1.0	-0.1	-0.6
Germany	-6.1	-1.0	0.3
Italy	-1.7	-2.2	-0.1
Netherlands	1.0	0.4	-0.5

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1. All European Union Member States in the euro area

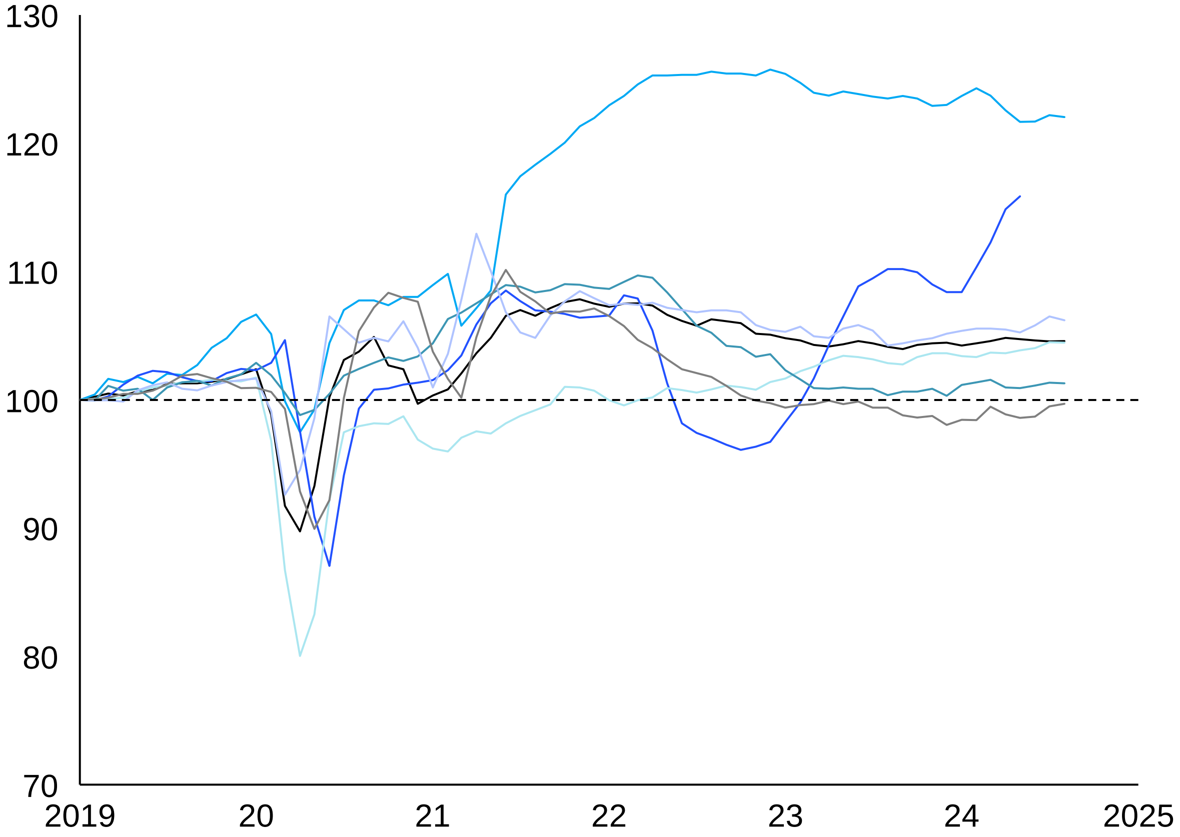
Source: Eurostat, Haver, ONS

Retail Sales (2/2)

Stagnation or slight contraction in retail sales volume across most countries in Europe in 2023 and early 2024

Retail Sales

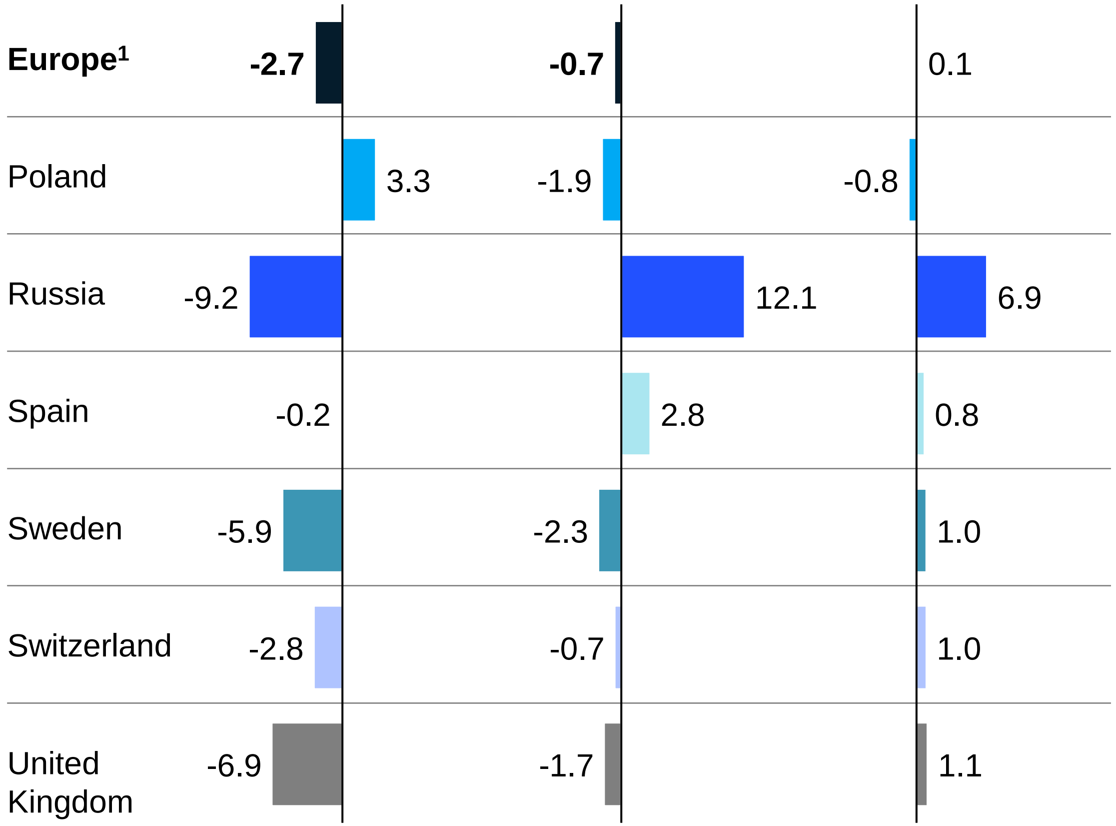
Volume index (Jan 2019=100), 3-months rolling



Change (%) **Dec 21 – Dec 22**

Change (%) **Dec 22 – Dec 23**

Change (%) **Dec 23 – May 24**



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1. All European Union Member States in the euro area

Source: Eurostat, Haver, ONS

Consumer Prices

Eurozone inflation was 1.7% in September, down from August's reading. Core inflation was flat at 2.9%, while services inflation remained stubbornly high at 3.9% and non-energy industrial goods in negative territory.

Disinflation is expected to continue, albeit at slower pace. ECB in its September forecast inflation to drop gradually to its target: headline inflation is projected to be 2.5% in 2024, and 2.2% in 2025, unchanged from September’s projections.

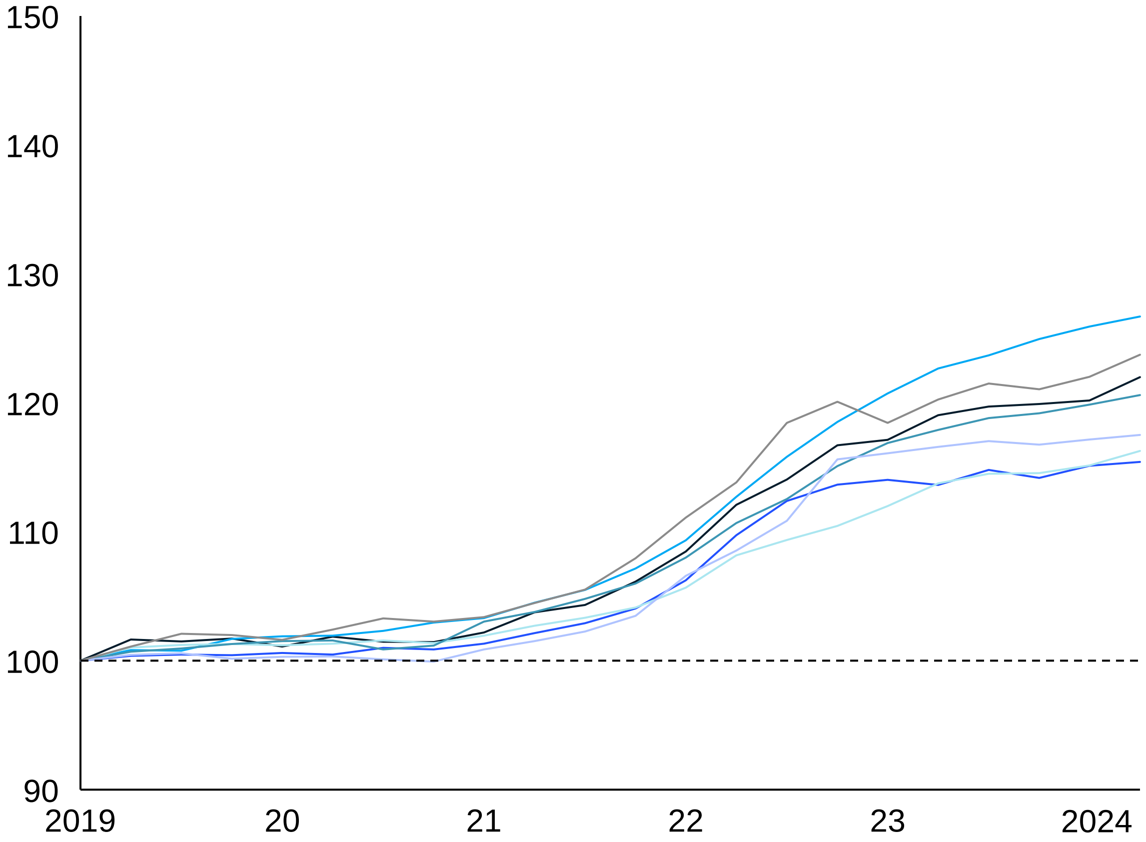
ECB cut its main rates by 25bps in October, where its key rate is at 3.4% down from 4.5% in September 2023 and bond markets are expecting further cuts next meetings.

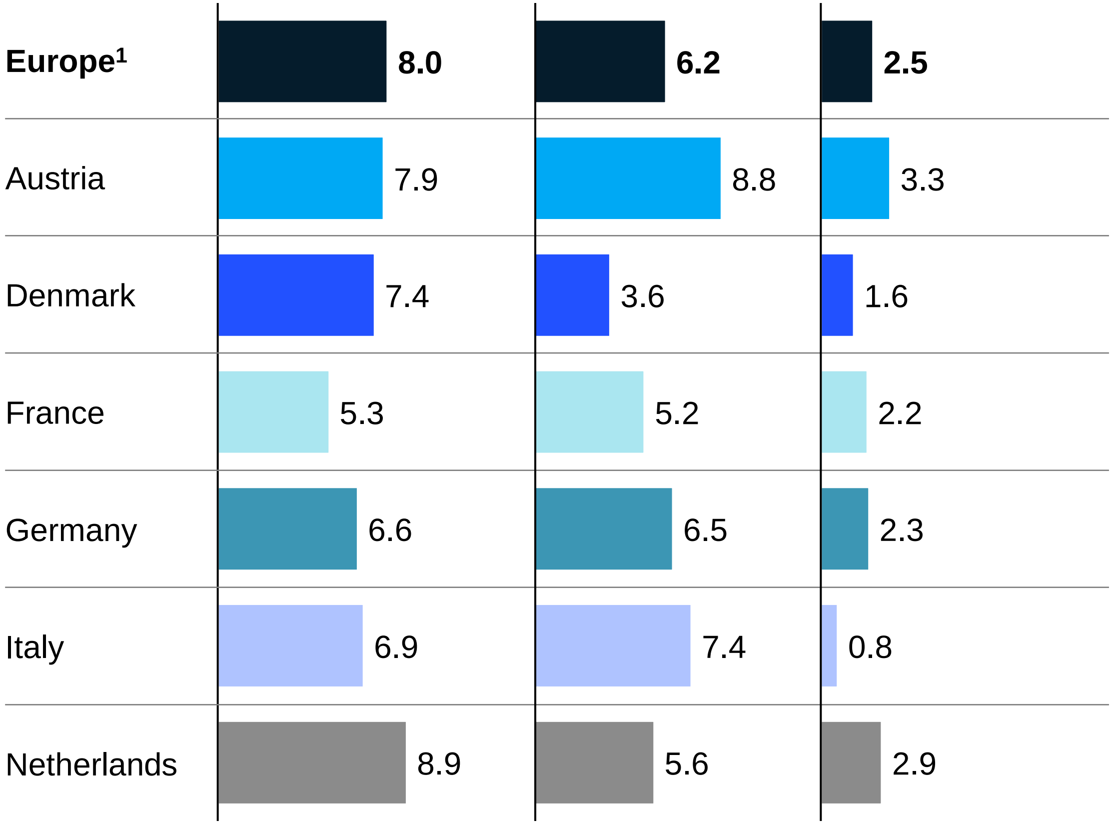
Consumer Prices (1/2)

Disinflation in the Eurozone has continued with recent numbers undershooting European Central Bank's forecast

Consumer Price Index

Index (2019 Q1=100), Quarterly





	Change (%) Q2 21 – Q1 22	Change (%) Q2 22 – Q1 23	Change (%) Q2 23 – Q2 24
Europe[1]	**8.0**	**6.2**	**2.5**
Austria	7.9	8.8	3.3
Denmark	7.4	3.6	1.6
France	5.3	5.2	2.2
Germany	6.6	6.5	2.3
Italy	6.9	7.4	0.8
Netherlands	8.9	5.6	2.9

1. All European Union Member States in the euro area

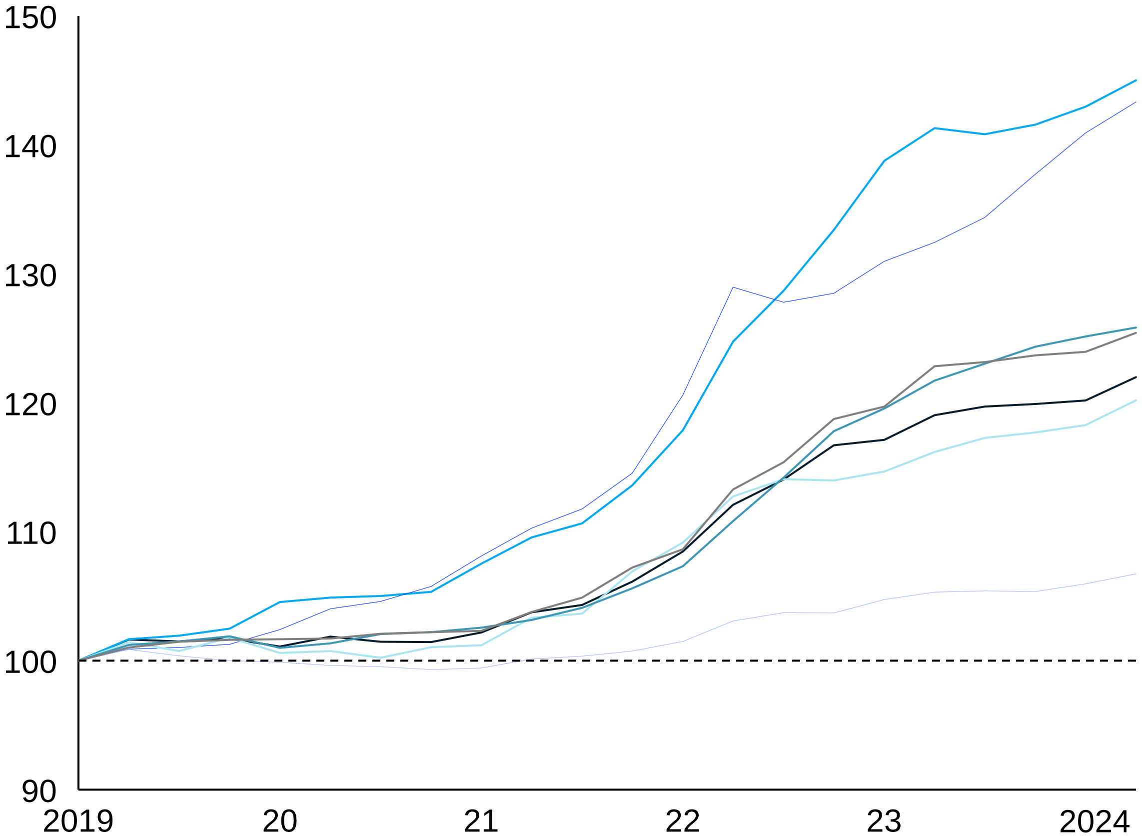
Source: Oxford Economics, National Federal Statistical Office

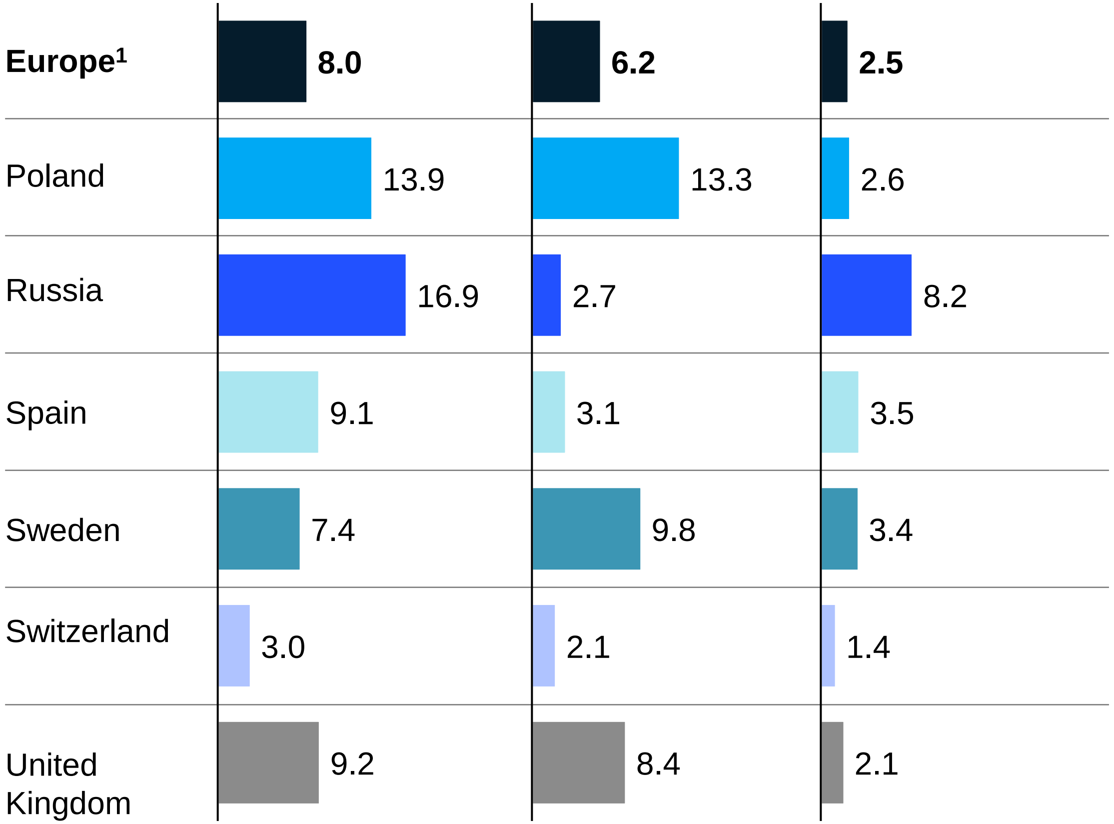
Consumer Prices (2/2)

Disinflation in the Eurozone has continued with recent numbers undershooting European Central Bank's forecast

Consumer Price Index

Index (2019 Q1=100), Quarterly





	Change (%) **Q2 21 – Q2 22**	**Change** (%) **Q2 22 – Q2 23**	**Change** (%) **Q2 23 – Q2 24**
Europe[1]	**8.0**	**6.2**	**2.5**
Poland	13.9	13.3	2.6
Russia	16.9	2.7	8.2
Spain	9.1	3.1	3.5
Sweden	7.4	9.8	3.4
Switzerland	3.0	2.1	1.4
United Kingdom	9.2	8.4	2.1

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1. All European Union Member States in the euro area

Source: Oxford Economics

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Spotlight perspective – Margin recovery in a post-inflation world: CPG and retail compared

Spotlight perspective – Consumer sentiment update: Positive impulse but limited impact

Q3 2024 in CPG

Main developments (TSR)

Global stock markets are up +17% in 2024 YTD, continuing the positive trajectory from 2023 (+17%). Compared to other industries, CPG was one of the lowest performers in 2023 (-2% TSR). Despite returning ~8% TSR so far in 2024 YTD, the CPG industry keeps underperforming other industries. Nonetheless, CPG remains one of the highest valued industries, driven by its high returns on capital.

Globally, after a difficult 2022/23, CPG subsegments are experiencing positive TSR again in 2024. Early signs of recovery are visible across subsectors in 2024 YTD. In Europe, Alcoholic Beverages and Packaged Food are lagging behind with negative TSR in 2024 YTD.

CPG subsegments saw a growth slowdown in 2023 – even turning negative for Leisure Products, Tobacco and Home Goods – after strong growth years of 2021 (pandemic recovery) and 2022 (inflation). Growth is expected to increase again in 2024/25 – just like margins for most subsectors.

Last quarter’s earnings season saw majority of companies hitting or beating consensus, especially on EBITDA. Forward-looking estimates adjusted upwards where consensus was beat. Notable exception is Alcoholic Beverages, that saw majority of companies missing consensus on Revenues, followed by downward adjustments in forward-looking estimates.

Value creation drivers

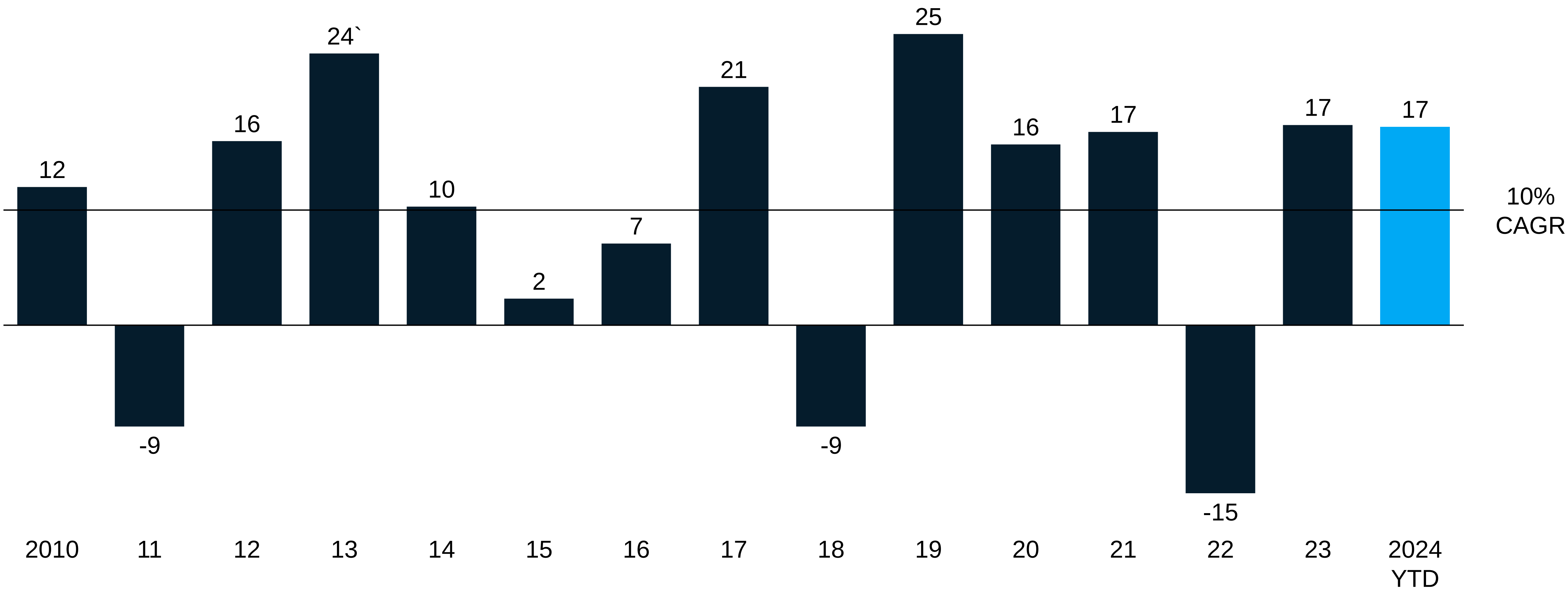
CPG companies that attract high valuations generally have higher growth and margin expectations – both in the short and long term – continuing their superior historical performance.

Growth currently is generally the biggest value driver for CPG companies, even for companies with currently low Return on Invested Capital (ROIC). Packaged Foods is an exception, where margin is the biggest value driver for low ROIC companies, given its low spread to the cost of capital.

Globally markets are up ~17% so far in 2024

Weighted average TSR, %, 2010 – 2024[1]

As of September 30, 2024



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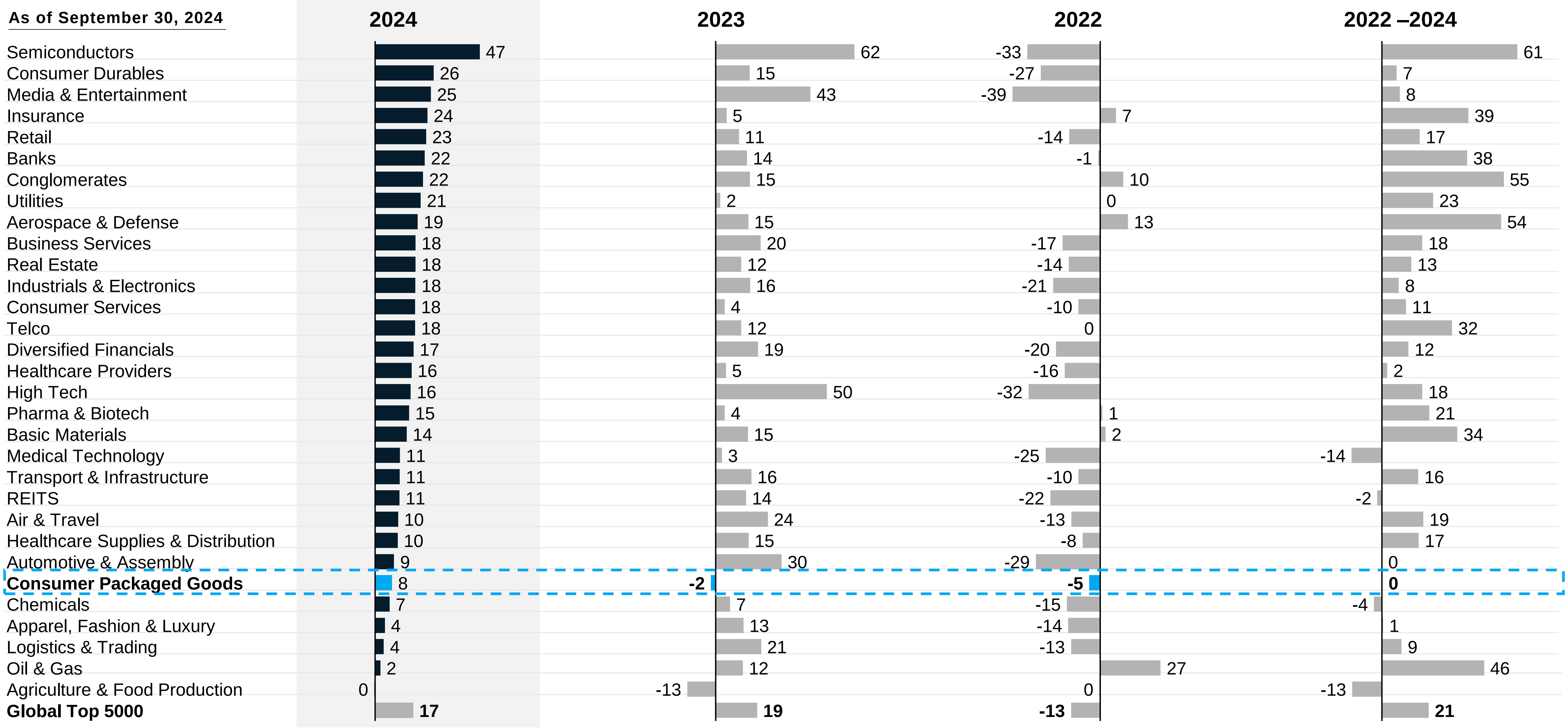
1. Weighted average of the top global 5,000 companies in each year by market capitalization USD

Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

CPG industry struggled in 2023 and is one of the lowest TSR performers in 2024 so far

W. Avg. industry TSR performance %

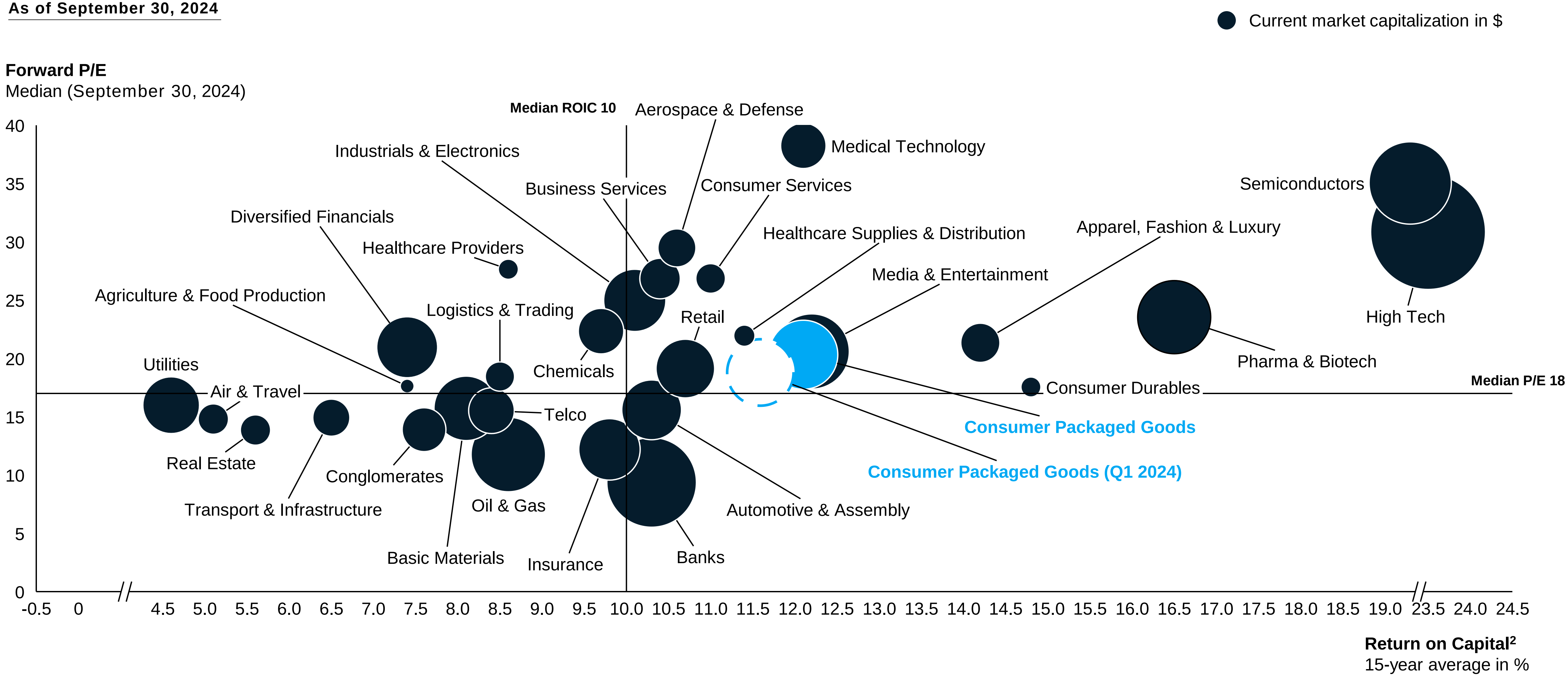


Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

Nonetheless, CPG remains one of the highest valued industries, driven by its high returns on capital

Industries analyzed based on 15-year average ROIC *(%)* & latest 1- Yr Forward P/E *(x)*[1]

As of September 30, 2024



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1. Based on the top 5000 companies globally by market cap as of 12/31/2023
2. Return on Invested Capital including Goodwill and Intangibles for Industrials. Return on Equity for Banks and Insurance Companies. 15-year average (2008-22)

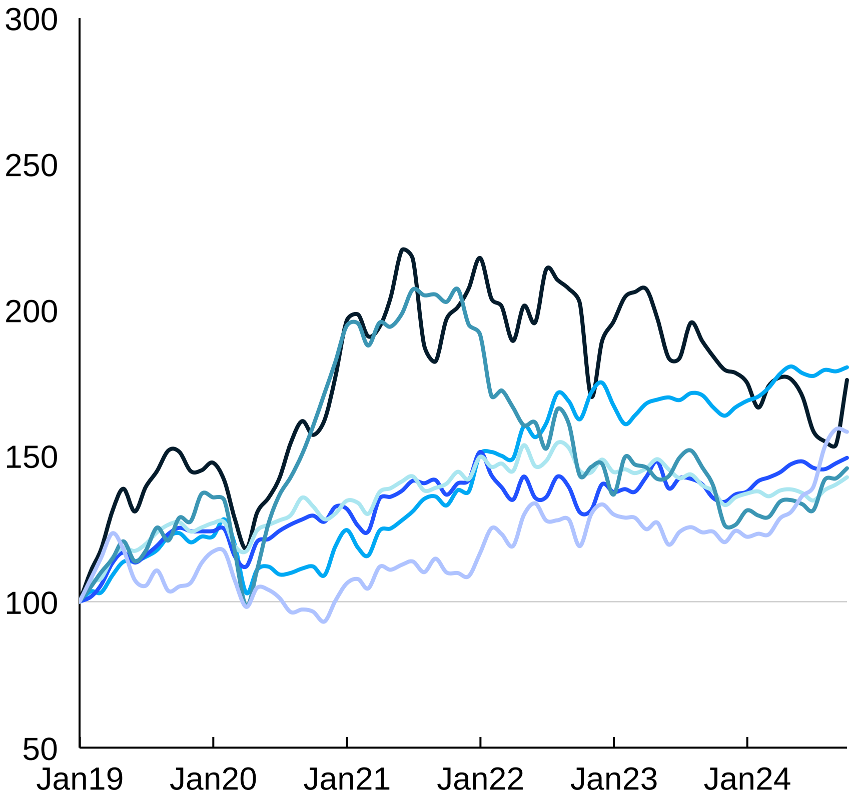
Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

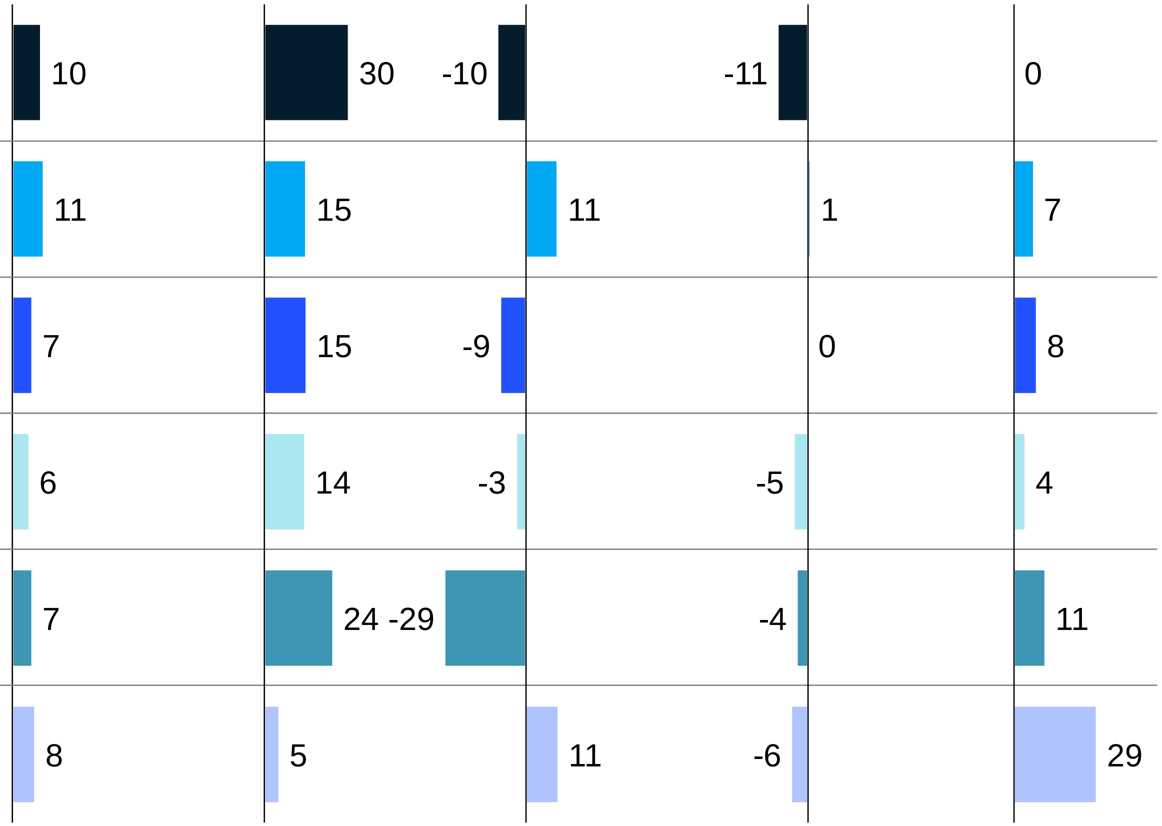
Globally, most CPG subsegments saw negative TSR in 2023 while all of them are experiencing positive YTD TSR

Leisure Products and Tobacco are leading on TSR YTD

Total shareholder returns (TSR) since Dec 18

EUR, Dec 31, 2018 =100





	Full period Dec 18-Sep 24 %	**Pre-inflation** Dec 18-Dec 21 %	**2022** Dec 21-Dec 22 %	**2023** Dec 22-Dec 23 %	**2024 YTD** Dec 23-Sep 24 %
Alcoholic Beverages Global	10	30	-10	-11	0
Soft Drinks Global	11	15	11	1	7
Home & Personal Goods Global	7	15	-9	0	8
Packaged Food Global	6	14	-3	-5	4
Leisure Products Global	7	24	-29	-4	11
Tobacco Global	8	5	11	-6	29

1. N = 357

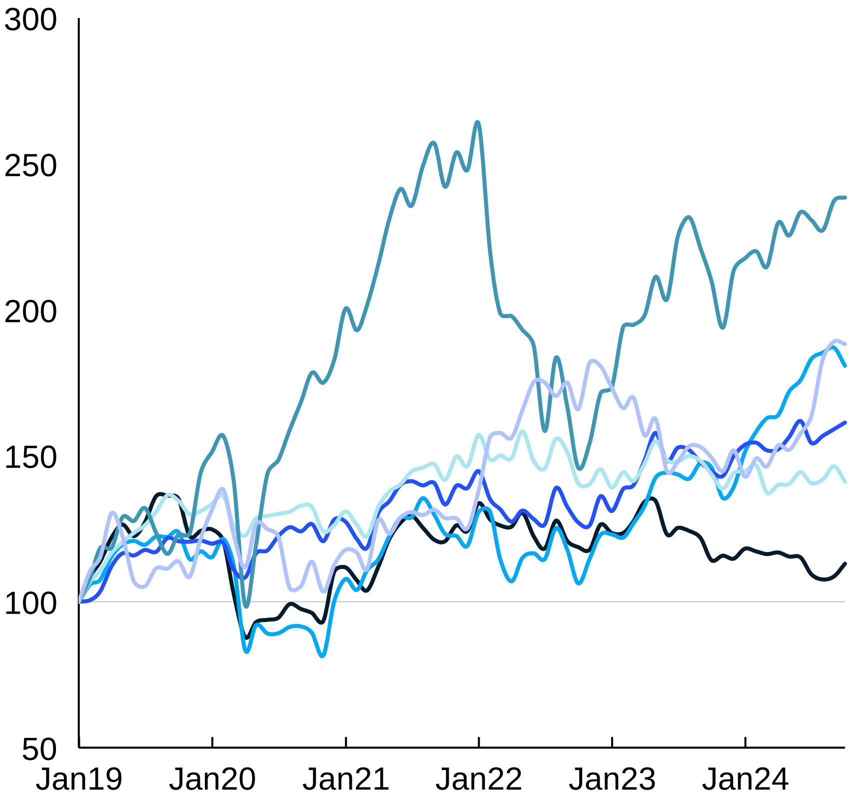
Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

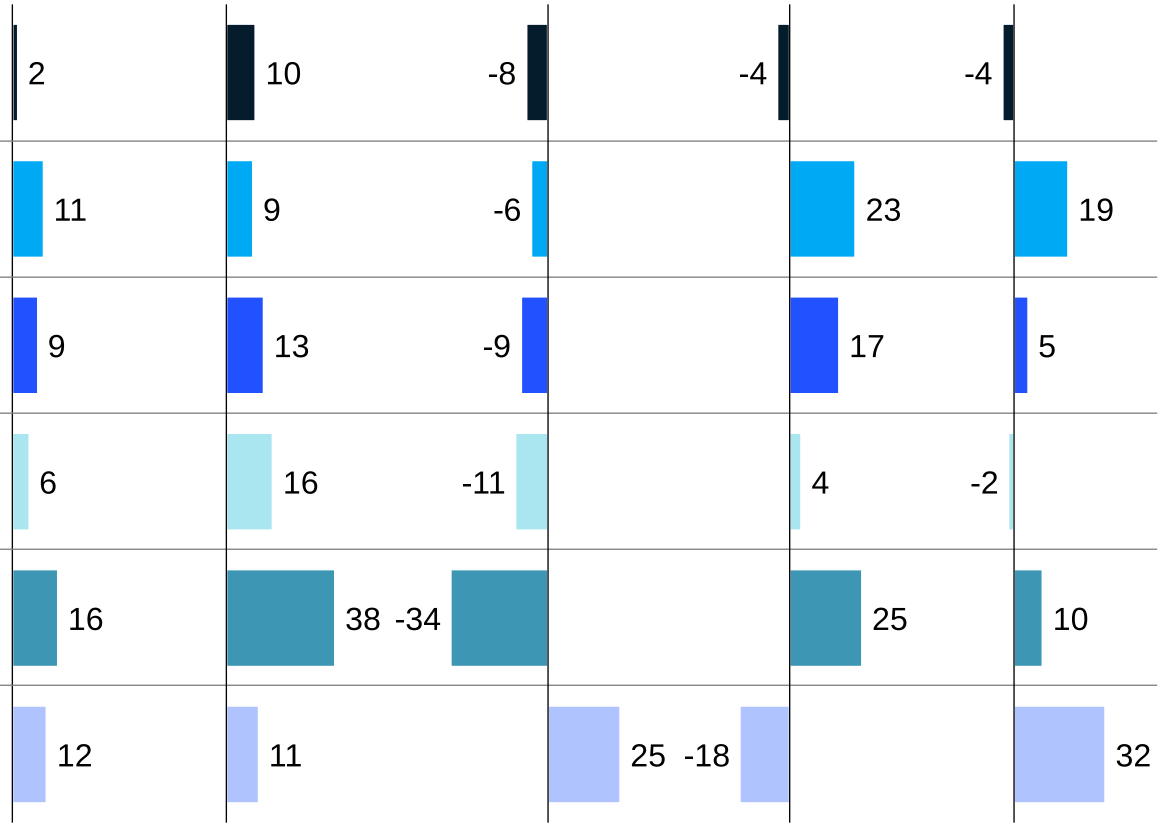
In Europe, CPGs in the Soft Drinks and Tobacco sectors achieved higher TSR in 2024 compared to their global counterparts

Alcoholic Beverages and Packaged Food were the only subsectors that saw negative TSR in 2024

Total shareholder returns (TSR) since Dec 18

EUR, Dec 31, 2018 =100





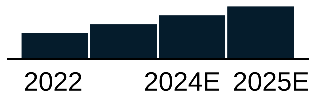
	Full period Dec 18-Sep 24 %	**Pre-inflation** Dec 18-Dec 21 %	**2022** Dec 21-Dec 22 %	**2023** Dec 22-Dec 23 %	**2024 YTD** Dec 23-Sep 24 %
Alcoholic Beverages Europe	2	10	-8	-4	-4
Soft Drinks Europe	11	9	-6	23	19
Home & Personal Goods Europe	9	13	-9	17	5
Packaged Food Europe	6	16	-11	4	-2
Leisure Products Europe	16	38	-34	25	10
Tobacco Europe	12	11	25	-18	32

1. N = 56

Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

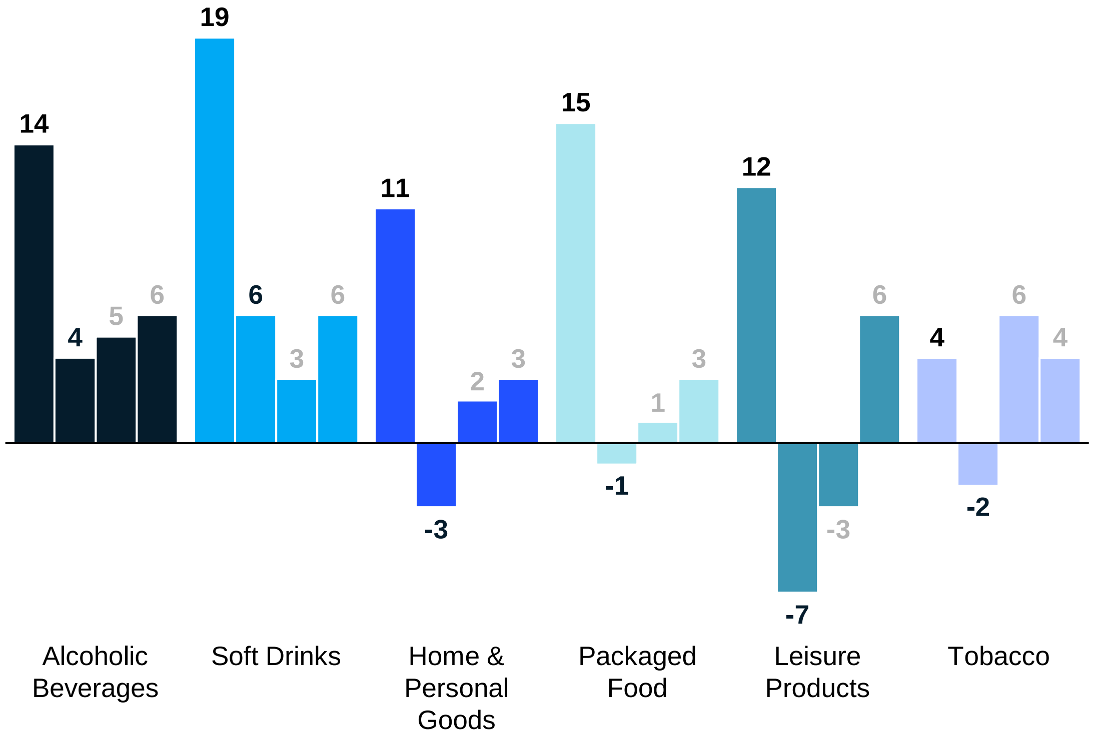
Globally, most CPG sub-sectors are expected to experience higher growth and margins over the next two years

For Leisure Products growth is expected to pick up again in 2025



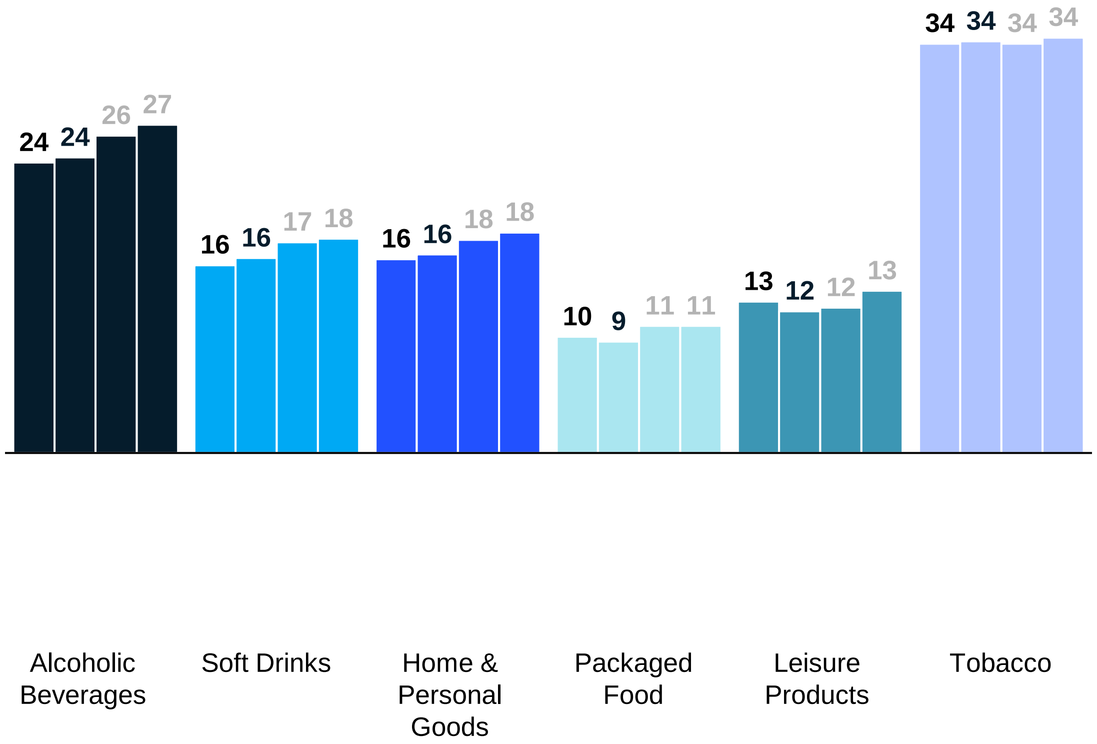
Revenue growth[1,2]

%, 2022 – 2025E, Weighted average



EBITA margin[1,2]

%, 2022 – 2025E, Weighted average



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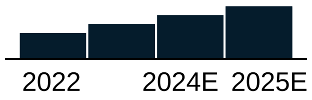
1. N = 346 (Alcoholic Beverages 52, Soft Drinks 27, Home & Personal Goods 63, Packaged Food 162, Leisure Products 28, Tobacco 14); only includes companies for which a 2025 estimate is available

2. 2024 based on latest analyst consensus if actuals not available yet; 2025 based on latest analyst consensus estimates

Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

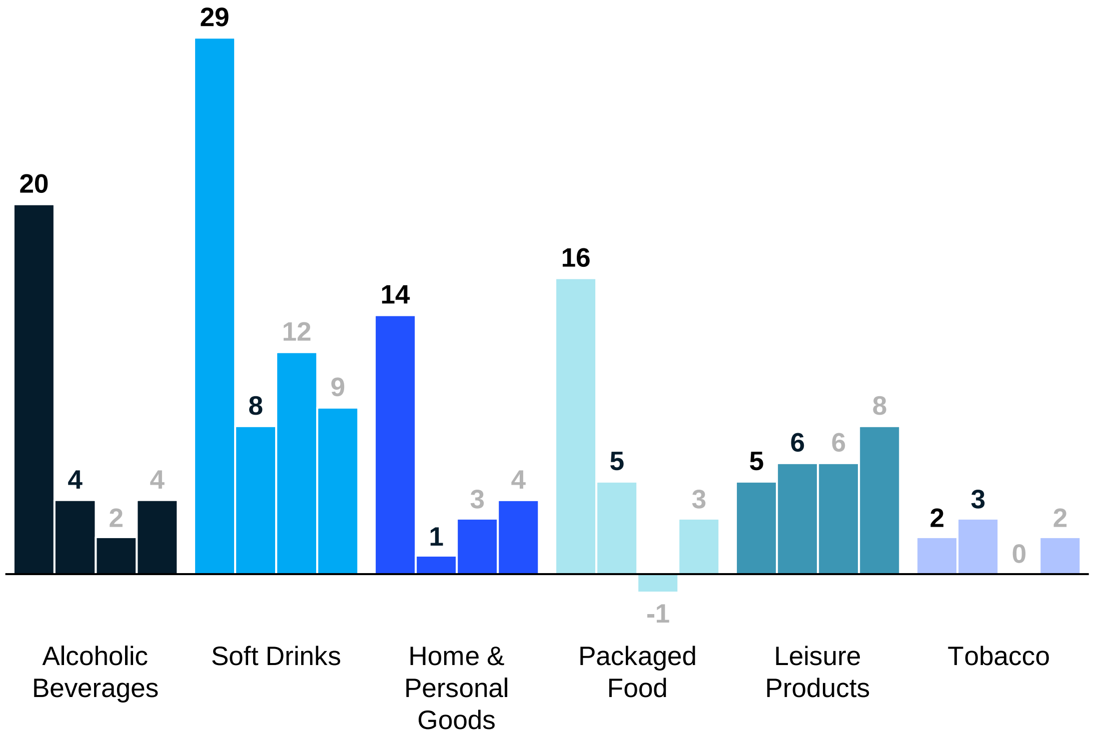
In Europe, - similarly – most CPG sub-sectors are expected to experience higher growth and margins over the next two years

Packaged Food and Tobacco expected to not grow in 2024



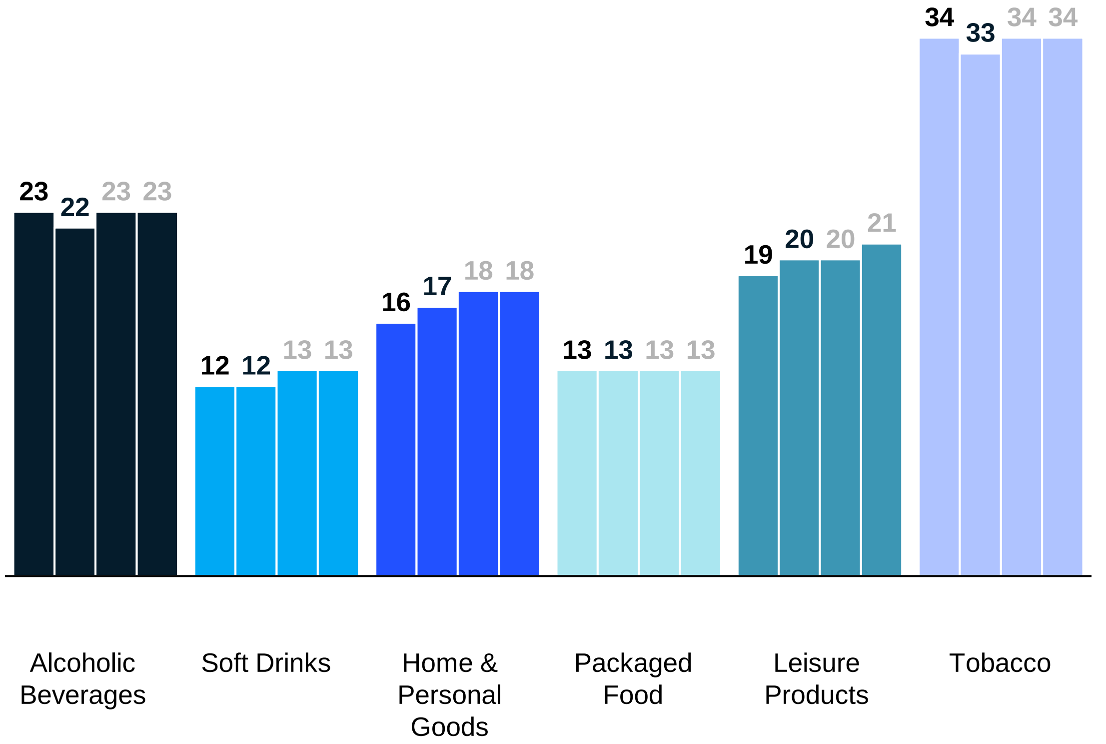
Revenue growth[1,2]

%, 2022 – 2025E, Weighted average



EBITA margin[1,2]

%, 2022 – 2025E, Weighted average



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1. N = 55 (Alcoholic Beverages 9, Soft Drinks 5, Home & Personal Goods 8, Packaged Food 25, Leisure Products 4, Tobacco 4); only includes companies for which a 2025 estimate is available
2. 2024 based on latest analyst consensus if actuals not available yet; 2025 based on latest analyst consensus estimates

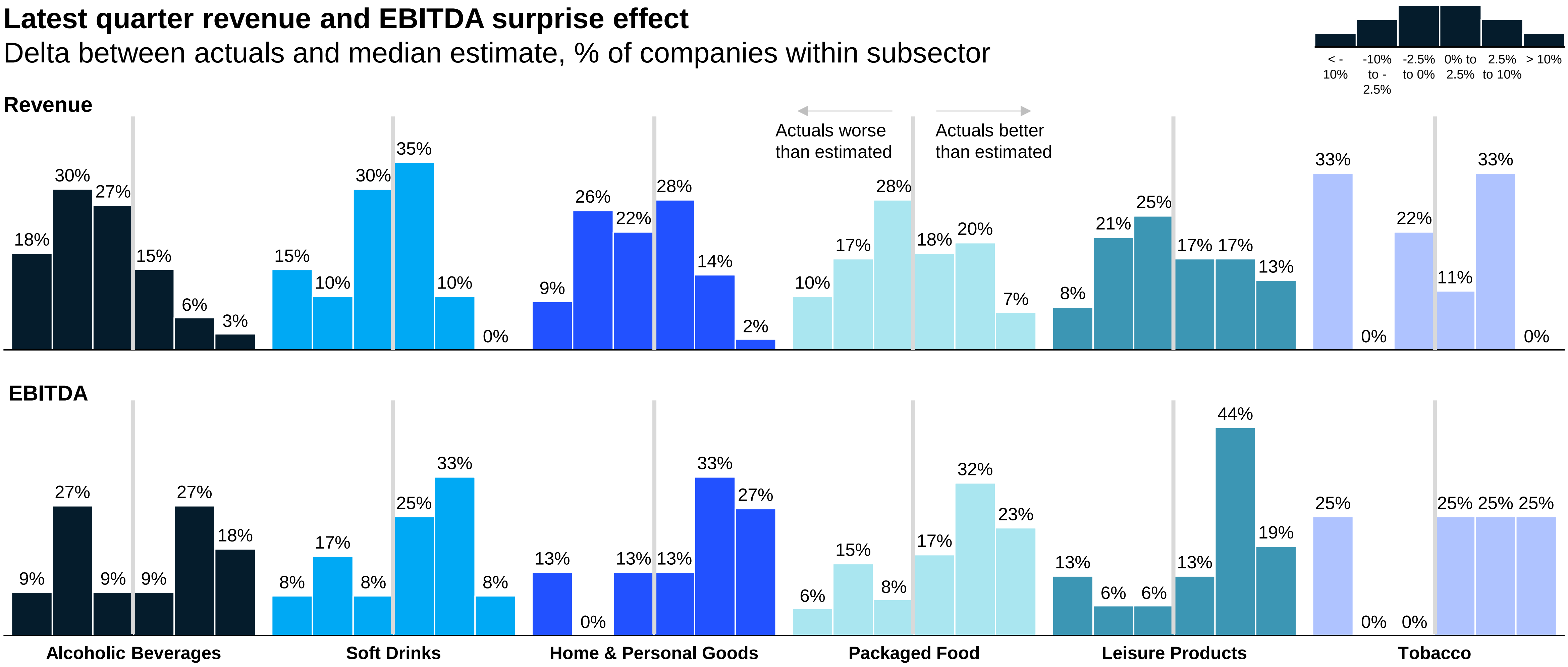
Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

Across subsectors, EBITDA surprises were significantly more positive than revenue surprises in latest earnings announcements

Notably, most Alcoholic Beverages players missed the revenue estimate

Latest quarter revenue and EBITDA surprise effect

Delta between actuals and median estimate, % of companies within subsector



Note: Based on most recent quarterly earnings dates, ranging from 09/30/2023 to 09/30/2024

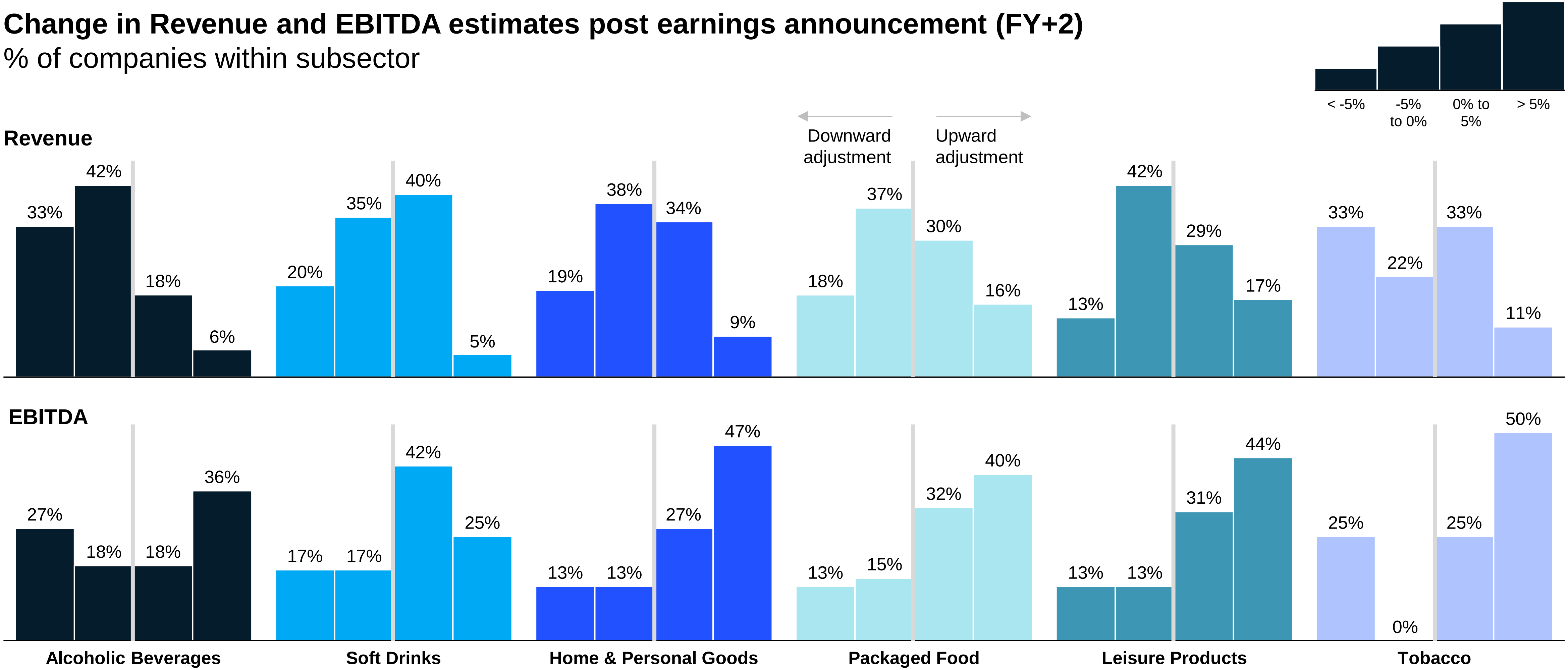
Source: S&P Capital IQ; McKinsey analysis

EBITDA estimates adjusted upwards in line with positive surprises for majority of subsectors

More than 70% Alcoholic Beverages companies experienced lower revenue estimates after negative announcements

Change in Revenue and EBITDA estimates post earnings announcement (FY+2)

% of companies within subsector



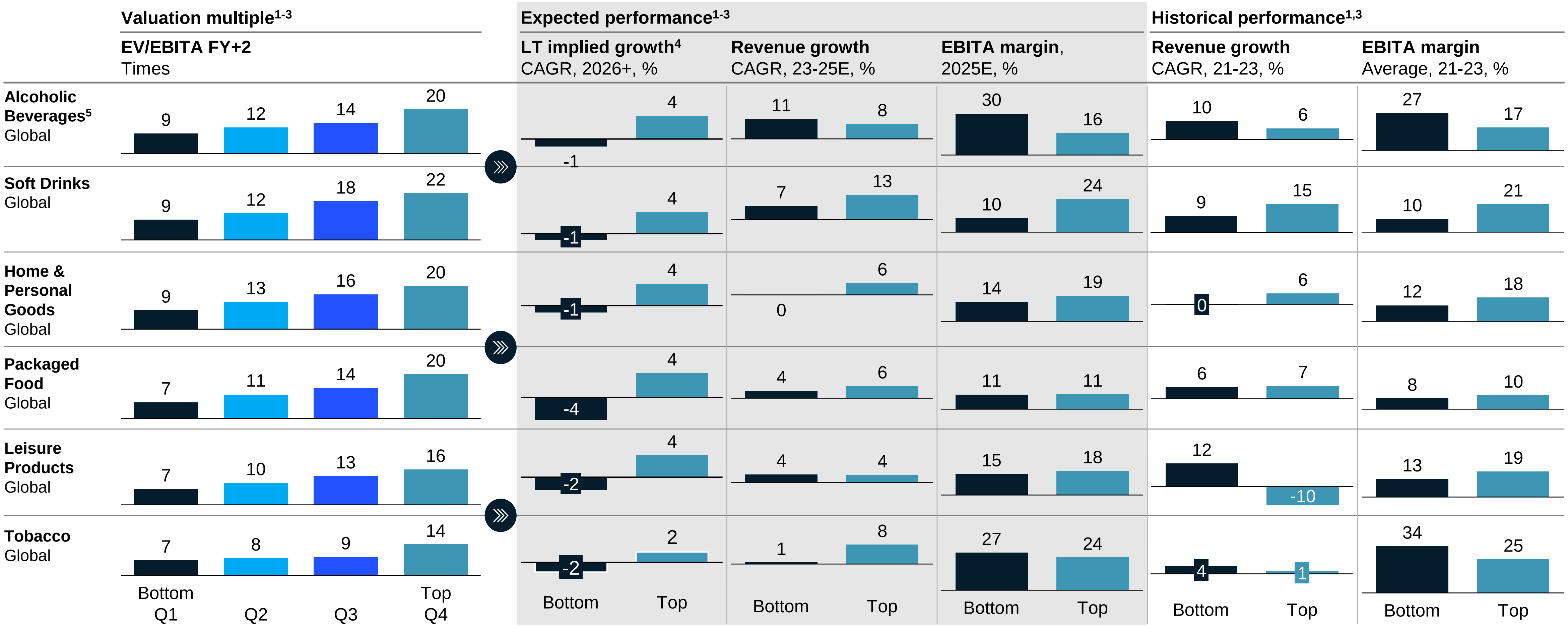
	< -5%	-5% to 0%	0% to 5%	> 5%
Revenue				
Alcoholic Beverages	33%	42%	18%	6%
Soft Drinks	20%	35%	40%	5%
Home & Personal Goods	19%	38%	34%	9%
Packaged Food	18%	37%	30%	16%
Leisure Products	13%	42%	29%	17%
Tobacco	33%	22%	33%	11%
EBITDA				
Alcoholic Beverages	27%	18%	18%	36%
Soft Drinks	17%	17%	42%	25%
Home & Personal Goods	13%	13%	27%	47%
Packaged Food	13%	15%	32%	40%
Leisure Products	13%	13%	31%	44%
Tobacco	25%	0%	25%	50%

Note: Based on most recent quarterly earnings dates, ending 09/30/2024

Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

High-valued CPGs generally have higher long-term growth and margin expectations, continuing superior historical performance

Tobacco companies have the lowest multiples on average across subsectors

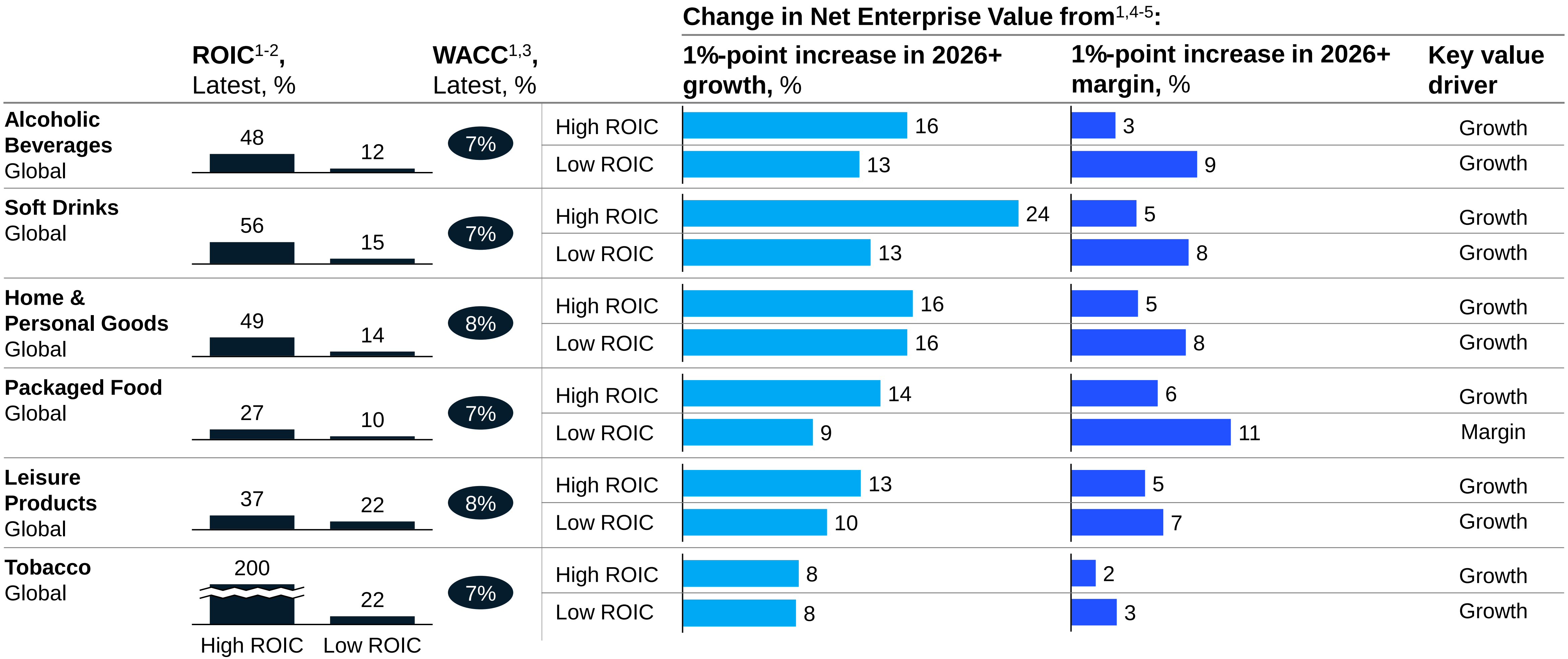


1. N = 331 (Alcoholic Beverages 50, Soft Drinks 27, Home & Personal Goods 63, Packaged Food 153, Leisure Products 26, Tobacco 12); 2. EV and analyst estimates as on September 30, 2024; 3. Medians within quartiles; Companies categorised into quartiles based on Valuation Multiple as on September 30, 2024; 4. Estimated using a simple DCF model by company. Revenues and margins for 2024-2025 based on analyst consensus. 2026+ implied growth rate solves for September 30, 2024 company Net Enterprise Value. 2026+ margin set equal to 2025 expected margin and capital turnover set equal to median of last 3 years. Continuing Value starts in 2039, where growth is capped at 4.5%. 4. Based on a smaller sample size (n=303) because meaningful results could not be generated for all 331 companies; other results on this page are robust to using this smaller sample size; 5. There are many Chinese companies in the bottom quartile, showing patterns different from other regions. After excluding them, the Bottom vs. Top quartiles' metrics are as follows: FY23-25E revenue growth (5% vs. 0%), 2025E EBITA margin (15% vs. 19%), historical FY21-23 revenue growth (8% vs. 6%), and average FY21-23 EBITA margin (14% vs. 20%)

Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

Growth is the key value driver for CPG companies, with ROIC for most categories well above WACC

Even low ROIC companies are generally creating value in CPG by generating returns above cost of capital



	ROIC[1-2], Latest, %		WACC[1,3], Latest, %		Change in Net Enterprise Value from[1,4-5]:		
	High ROIC	Low ROIC			1%-point increase in 2026+ growth, %	1%-point increase in 2026+ margin, %	Key value driver
Alcoholic Beverages Global	48	12	7%	High ROIC	16	3	Growth
				Low ROIC	13	9	Growth
Soft Drinks Global	56	15	7%	High ROIC	24	5	Growth
				Low ROIC	13	8	Growth
Home & Personal Goods Global	49	14	8%	High ROIC	16	5	Growth
				Low ROIC	16	8	Growth
Packaged Food Global	27	10	7%	High ROIC	14	6	Growth
				Low ROIC	9	11	Margin
Leisure Products Global	37	22	8%	High ROIC	13	5	Growth
				Low ROIC	10	7	Growth
Tobacco Global	200	22	7%	High ROIC	8	2	Growth
				Low ROIC	8	3	Growth

---

1. N = 303 (Alcoholic Beverages 47, Soft Drinks 26, Home & Personal Goods 61, Packaged Food 134, Leisure Products 24, Tobacco 11); 2. Median ROIC ex Goodwill 2023; 3. Median WACC 2023; 4. Companies are classified in High ROIC and Low ROIC based on whether they achieved higher or lower ROIC in 2023 versus the median for the respective subsector; 5. Medians; . Estimated using a simple DCF model by company. Revenues and margins for 2024-2025 based on analyst consensus. 2026+ implied growth rate solves for September 30, 2024 company Net Enterprise Value. 2026+ margin set equal to 2025 expected margin and capital turnover set equal to median of last 3 years. Continuing Value starts in 2039, where growth is capped at 4.5%

Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

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Margin recovery in a post-inflation world

CPG and retail compared

Many CPG companies have been able to pass on cost pressures driven by inflation and supply issues. Despite gross margins decreasing for most companies since pre-inflation, most CPG companies were able to at least partially offset gross margin declines through cost reductions in SG&A.

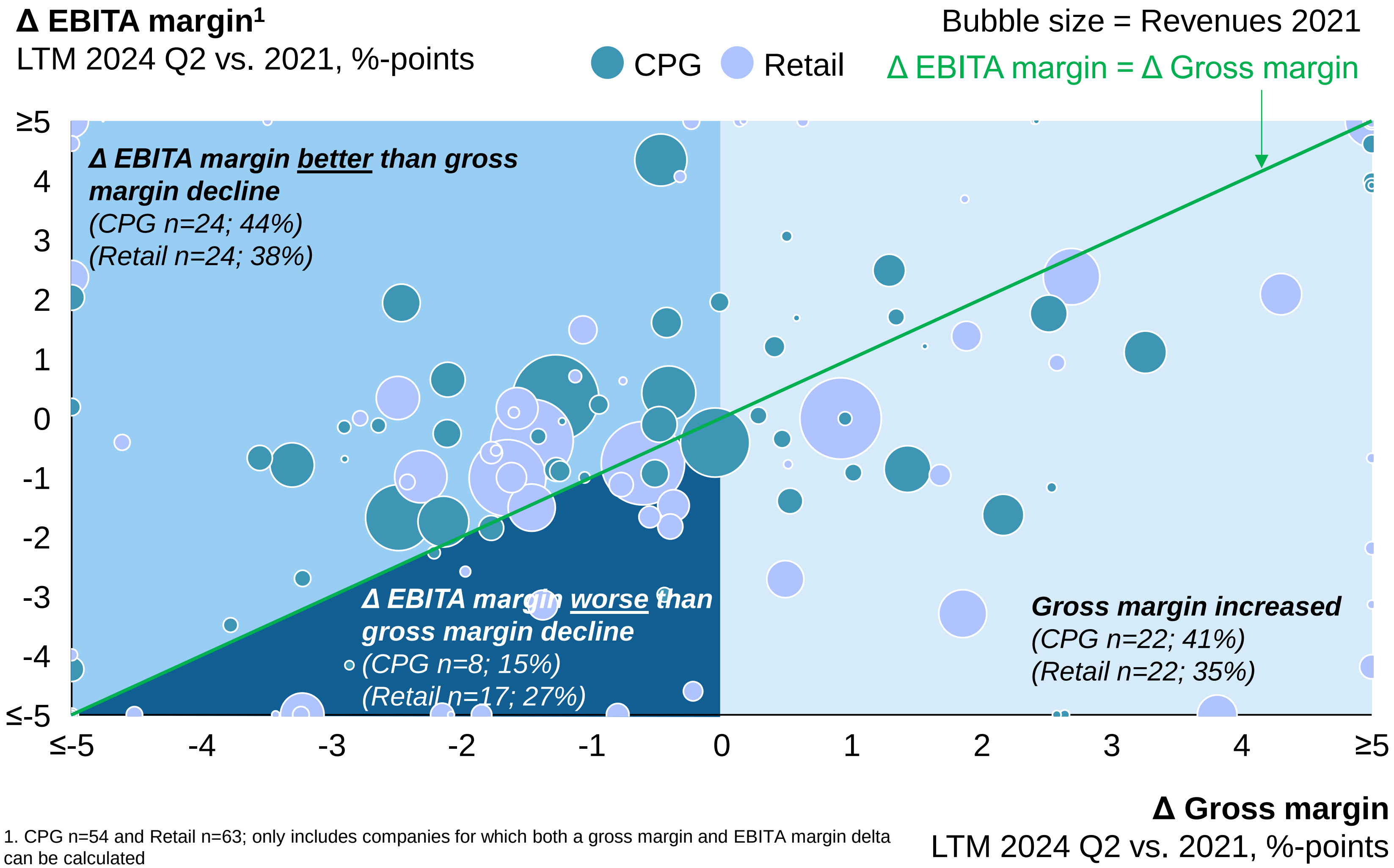
Yet, despite improvements since 2022, most CPG companies still have lower gross and EBITA margins at the end of Q2/2004 compared to pre-inflation (2021).

In comparison to Retailers, there is some evidence that European CPGs have been better at limiting inflation impact on margins – particularly in the early quarters of the high-inflation period.

Over the full 2021-2024 period margin development and mitigation success has aligned more closely for CPG and retail.

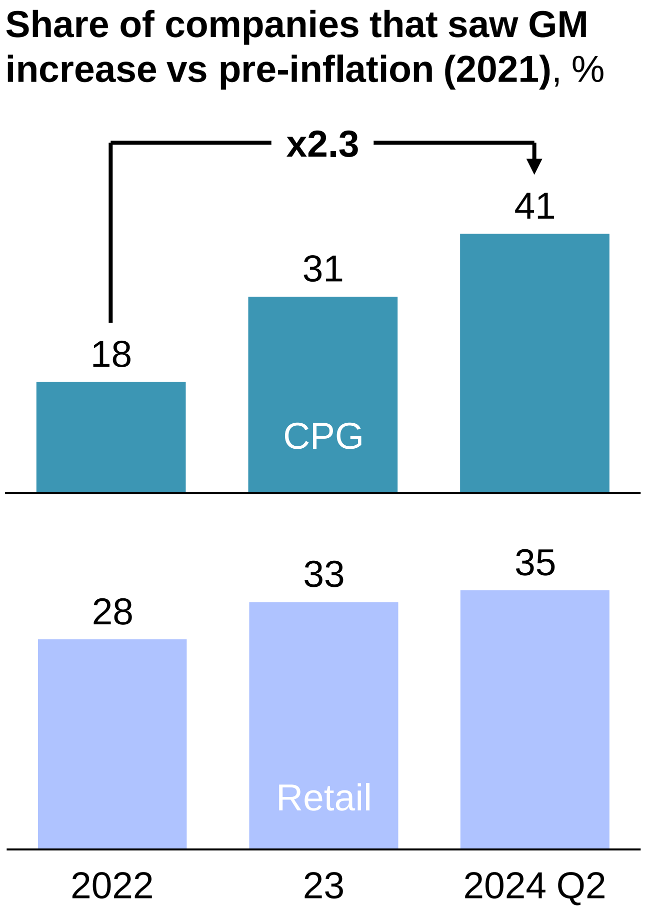
In Europe, there is some evidence that CPGs have been better at limiting inflation impact on margins compared to Retailers

The share of CPGs that saw gross margins increase versus pre-inflation (2021) has more than doubled from 2022 to now



Δ EBITA margin[1]
LTM 2024 Q2 vs. 2021, %-points

Δ Gross margin
LTM 2024 Q2 vs. 2021, %-points



Share of companies that saw GM increase vs pre-inflation (2021), %

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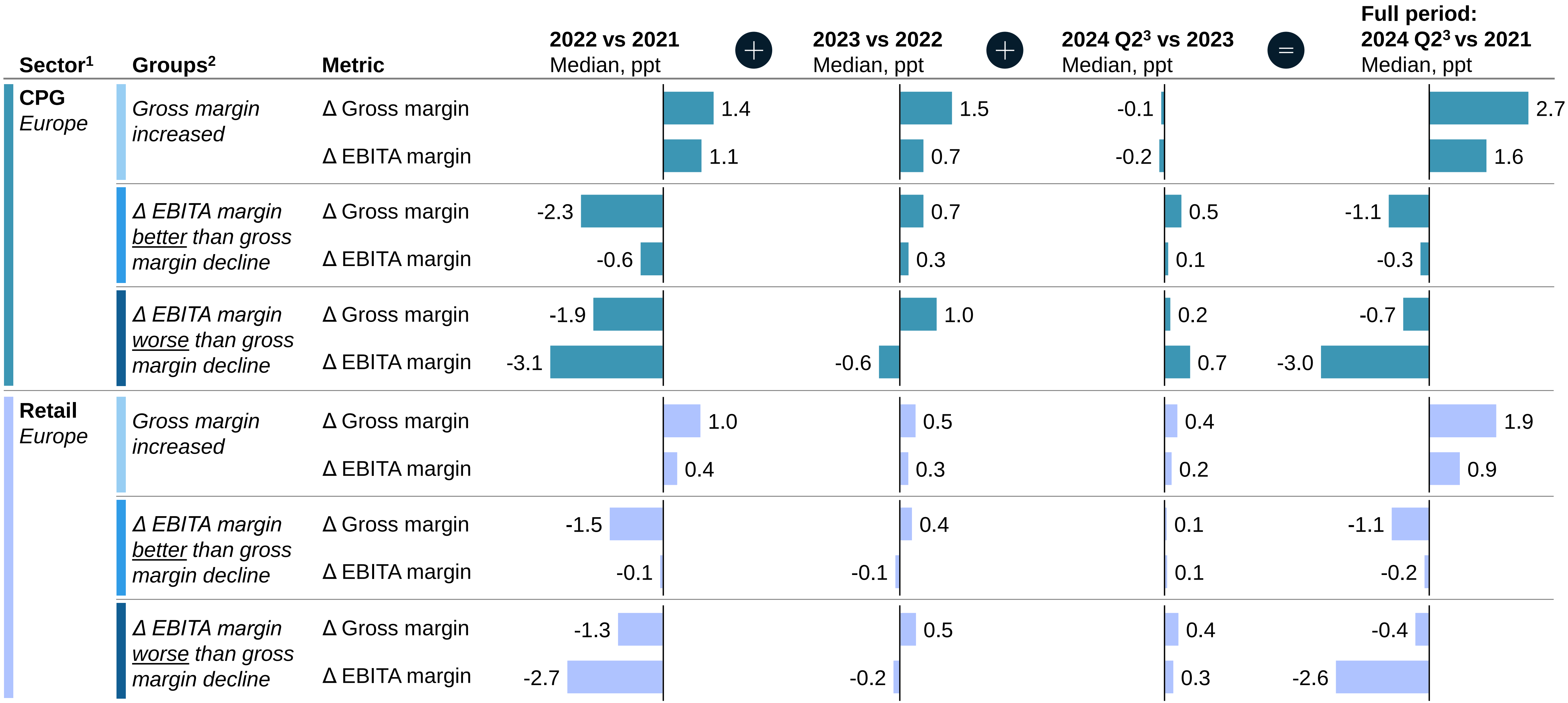
1. CPG n=54 and Retail n=63; only includes companies for which both a gross margin and EBITA margin delta can be calculated

Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

Despite some catch-up effects, CPGs and retailers that experienced greatest gross margin hits in 2022 still trail pre-inflation margins

Over the full 2021-2024 period margin development and mitigation success has aligned more closely for CPG and retail



Sector[1]	**Groups**[2]	**Metric**	**2022 vs 2021** Median, ppt	+	**2023 vs 2022** Median, ppt	+	**2024 Q2**[3] **vs 2023** Median, ppt	=	**Full period: 2024 Q2**[3] **vs 2021** Median, ppt
CPG *Europe*	*Gross margin increased*	Δ Gross margin	1.4		1.5		-0.1		2.7
		Δ EBITA margin	1.1		0.7		-0.2		1.6
	Δ EBITA margin better than gross margin decline	Δ Gross margin	-2.3		0.7		0.5		-1.1
		Δ EBITA margin	-0.6		0.3		0.1		-0.3
	Δ EBITA margin worse than gross margin decline	Δ Gross margin	-1.9		1.0		0.2		-0.7
		Δ EBITA margin	-3.1		-0.6		0.7		-3.0
Retail *Europe*	*Gross margin increased*	Δ Gross margin	1.0		0.5		0.4		1.9
		Δ EBITA margin	0.4		0.3		0.2		0.9
	Δ EBITA margin better than gross margin decline	Δ Gross margin	-1.5		0.4		0.1		-1.1
		Δ EBITA margin	-0.1		-0.1		0.1		-0.2
	Δ EBITA margin worse than gross margin decline	Δ Gross margin	-1.3		0.5		0.4		-0.4
		Δ EBITA margin	-2.7		-0.2		0.3		-2.6

1. CPG n=54 and Retail n=63; 2. For this analysis, we follow the groups as they were per 2022 over time; 3. On last 12 months basis

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Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

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Emerging European consumer trends in Q3 2024

Summary

Positive impulse yet insufficient for a shift in consumer's strategic purchasing behaviour

Despite a slight increase in overall optimism, a majority (53%) of respondents still exhibit mixed or ambivalent confidence in their country's economic conditions, believing that the economy will be impacted for 6-12+ months and will take longer to recover

Consumer awareness of inflation remains high, likely because they focus on actual prices rather than CPI percentages. Concurrently, negative economic news such as large layoffs and cost-cutting programs dominate headlines

Consequently, consumers adopt a very strategic approach to purchasing, reflected in a continued intention to hold back on spending for discretionary goods and a tendency to trade down

Underlying consumer trends

1

Consumer sentiment continues to strength for the 3rd quarter

Confidence increase is the highest in Spain, the UK and Italy and stable in Germany and France

Despite inflation concerns decreasing, it remains the top concern for consumers, followed by international conflict and climate change

27%

Of consumers are optimistic about the economic outlook

2

Consumers remain cautious about spending

After the summer spike, consumers anticipate spending less on DIY/home improvements, travel and associated services/products (i.e. pet services, petrol).

However, consumers are planning to spend more than in Q2'24 on baby supplies, electronics and furniture

Only 3

Categories have a positive net intent to spent

3

Consumers continue to trade down though less actively

Nearly 8 out of 10 consumers are trading down, mostly by adjusting quantities and changing retailers for a lower price or discount

However, the share of those trading down has declined compared to Q2'24

39%

consumers are adjusting quantities or pack size

4

Omnichannel is the preferred purchasing model

European consumers prefer an omnichannel shopping approach in most channels other than groceries, beverage, and personal care

Younger consumers have preference for omnichannel shopping compared to older ones, preferring in-store shopping

~50%

of consumers prefer omnichannel shopping model

5

ESG has become a key factor in most purchasing decisions

Consumers care deeply about brand health & environmental factors and transparency, and they are willing to pay for it

ESG importance varies slightly across markets and generations with Gen Z being most conscious

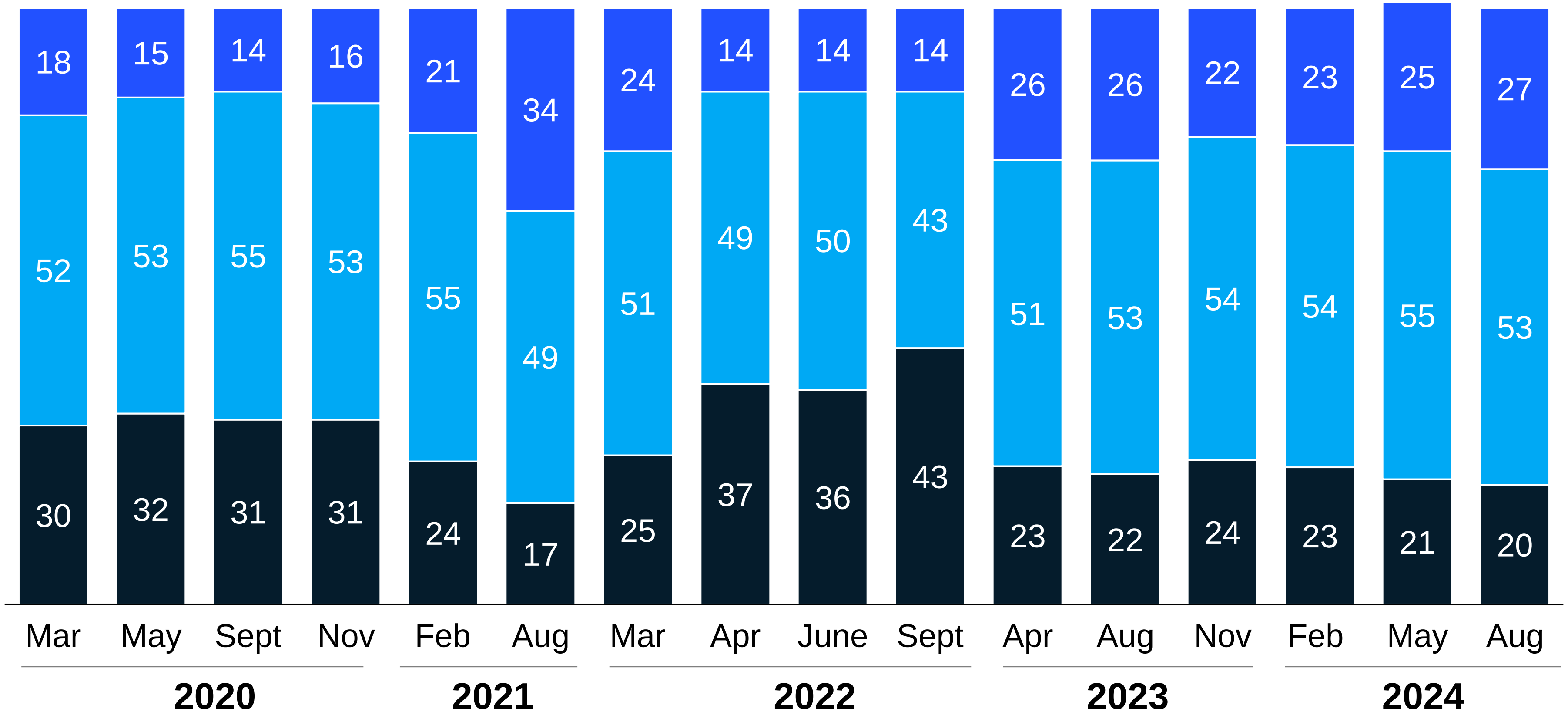
1 in 2

consumers consider ESG factors when shopping

Source: McKinsey ConsumerWise EU5 Sentiment Data (UK, Germany, Spain, Italy and France), May 2024, [n=5,094]

EU5 consumer optimism reached the highest level since Aug 2021, after increasing continuously since early 2024

Confidence level in own country's economic conditions[1], % respondents



Optimistic
The economy will rebound in 2-3 months, and that the economy will grow the same or faster than before

Mixed
The economy will be impacted for 6-12+ months and will take a longer time to recover

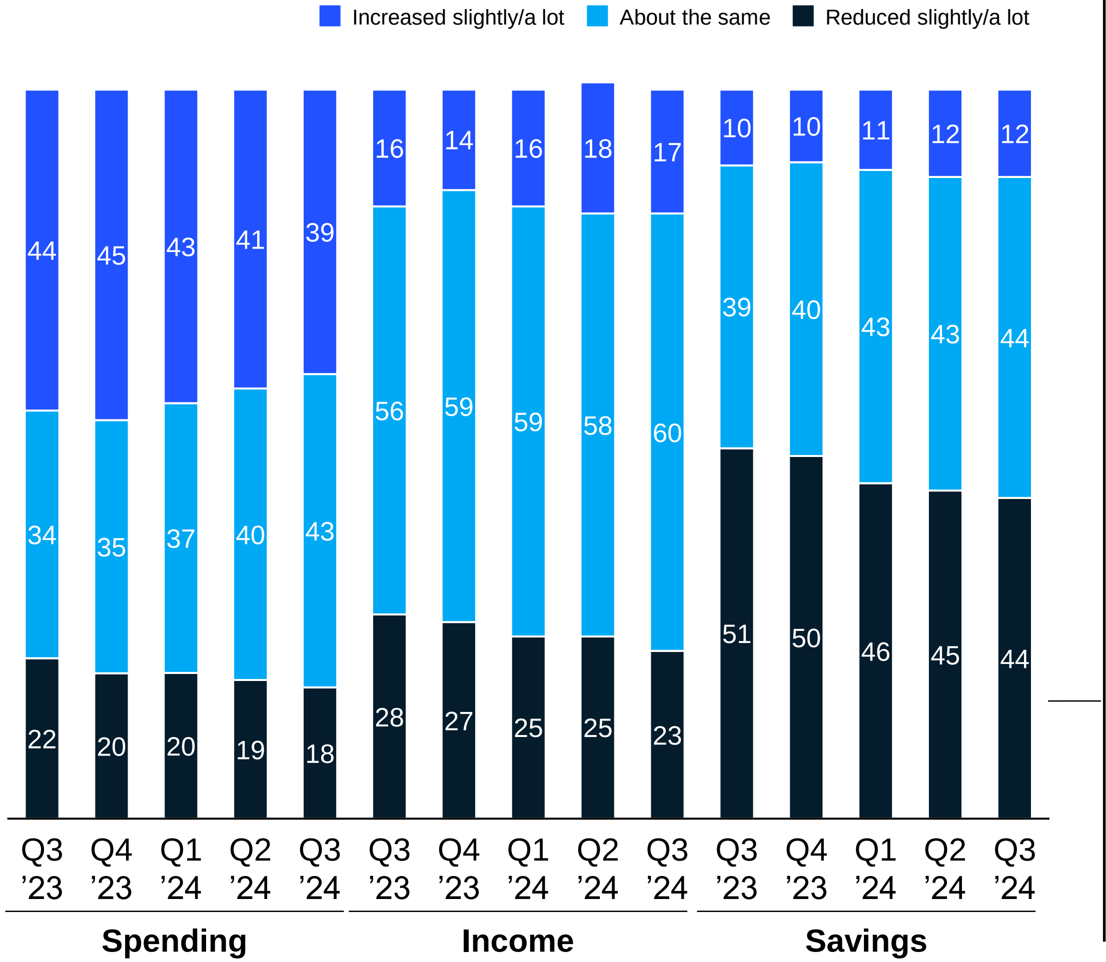
Pessimistic
The economy will be impacted long-term and will lead to a recession/one of the worst recessions we have seen

---

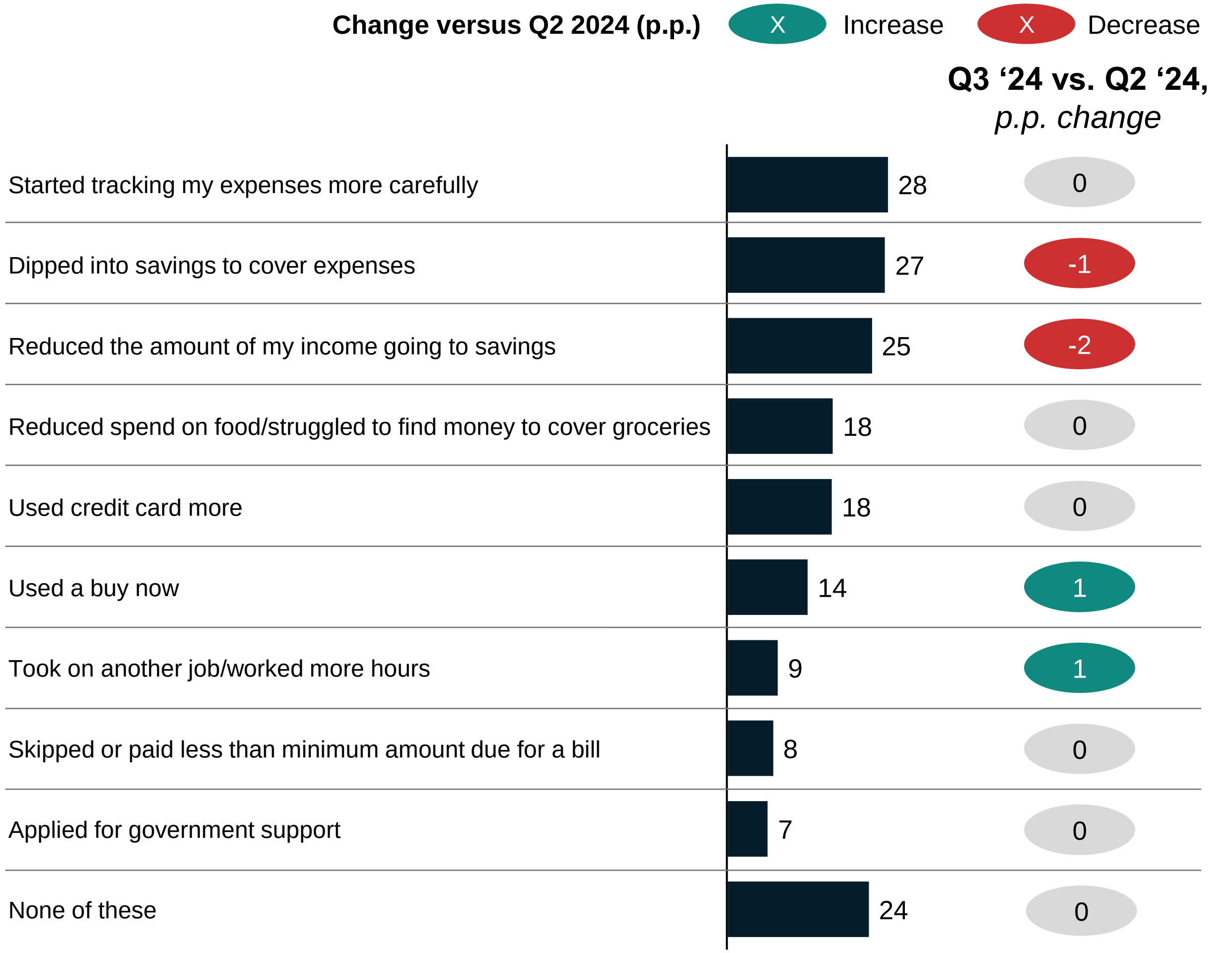
1. Q: What is your overall confidence level surrounding economic conditions in EU5? Rated from 1 "very optimistic" to 6 "very pessimistic." Top, middle, and bottom 2 boxes of scale aggregated to "Optimistic," "Neutral," and "Pessimistic." Figures may not sum to 100%, because of rounding. Question prior to Aug 2022 framed as: What is your overall confidence level surrounding economic conditions after the coronavirus (COVID-19) crisis subsides (i.e., once there is herd immunity)?

Household finances are largely stable with continued reduction in spending and an increase in propensity to save

Changes in household finances[1], % of respondents



Savings measures taken[2], % of respondents

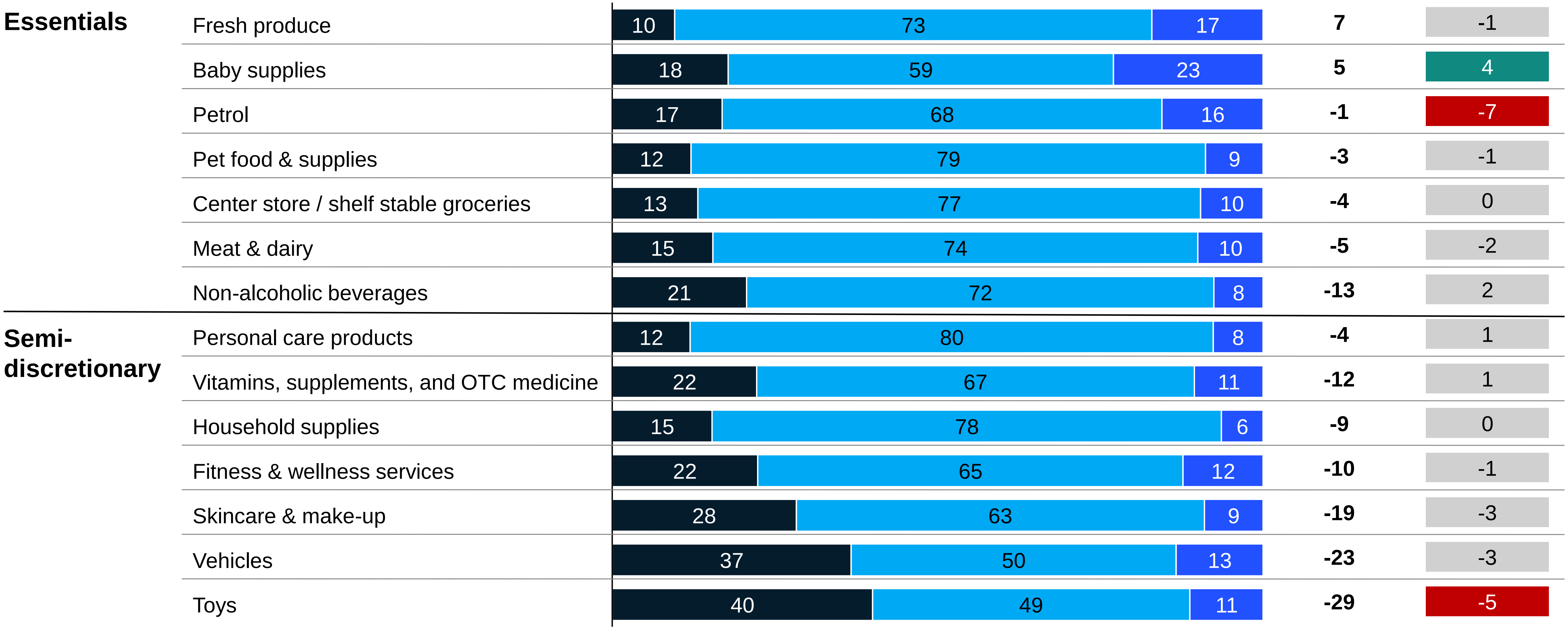


1. Q: How have the following changed over the past 3 months?
2. Q: Which, if any, of the following have you done in the past 3 months?

Consumers expect to spend more on fresh produce and baby supplies, but less on petrol and toys relative to Q2 ’24

■ Intend to spend less ■ Intend to spend the same ■ Intend to spend more 🟩 Above 3 ⬜ Between 3 and -3 🟥 Below -3

Expected spending per category over the next three months compared to usual[1], % of respondents



		Intend to spend less	Intend to spend the same	Intend to spend more	**Net intent**	**Net intent, Q3 ‘24 vs Q2 ‘24**
Essentials	Fresh produce	10	73	17	**7**	-1
	Baby supplies	18	59	23	**5**	4
	Petrol	17	68	16	**-1**	-7
	Pet food & supplies	12	79	9	**-3**	-1
	Center store / shelf stable groceries	13	77	10	**-4**	0
	Meat & dairy	15	74	10	**-5**	-2
	Non-alcoholic beverages	21	72	8	**-13**	2
Semi-discretionary	Personal care products	12	80	8	**-4**	1
	Vitamins, supplements, and OTC medicine	22	67	11	**-12**	1
	Household supplies	15	78	6	**-9**	0
	Fitness & wellness services	22	65	12	**-10**	-1
	Skincare & make-up	28	63	9	**-19**	-3
	Vehicles	37	50	13	**-23**	-3
	Toys	40	49	11	**-29**	-5

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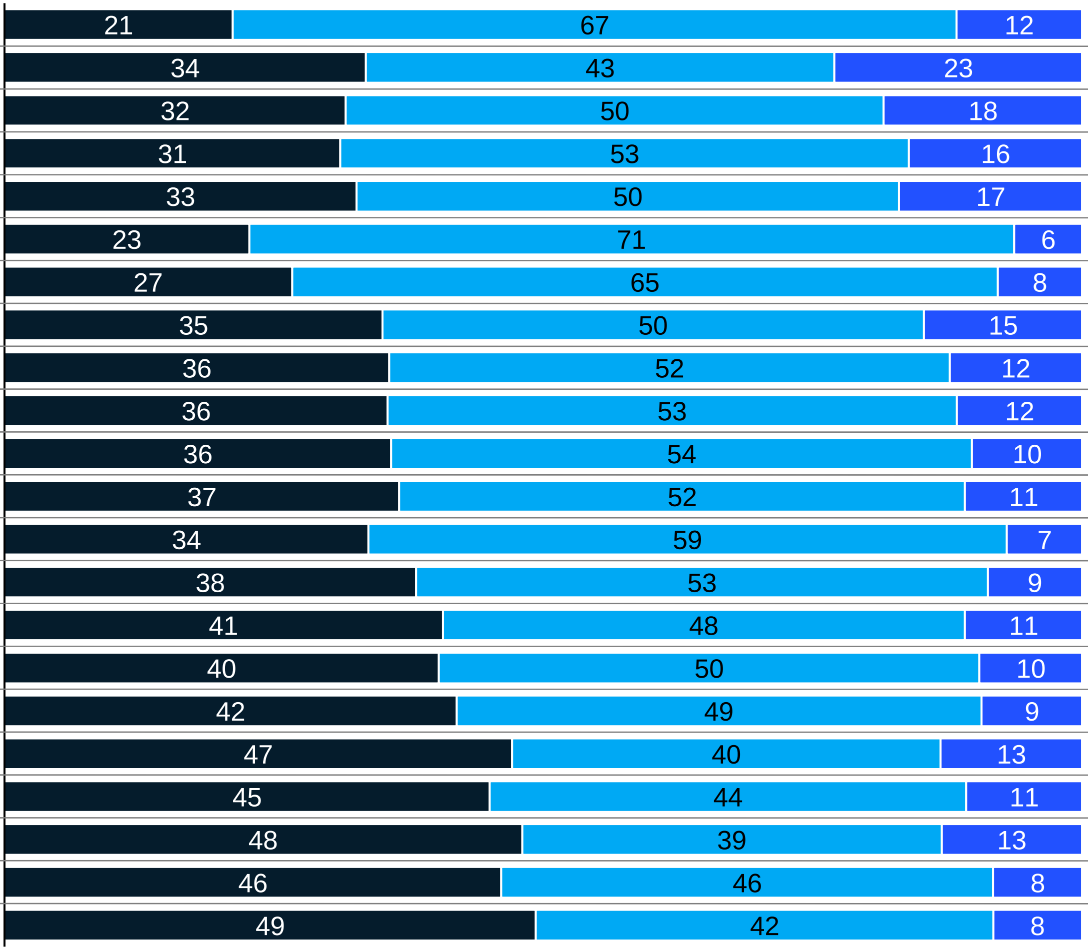
1. Q: Over the next 3 months, do you expect that you will spend more, about the same, or less money on these categories than usual?

In H2/2024 consumers anticipate spend on travel and DIY to decrease, while spending more on furniture and jewellery

■ Intend to spend less ■ Intend to spend the same ■ Intend to spend more 🟩 Above 3 ⬜ Between 3 and -3 🟥 Below -3

Expected spending per category over the next three months compared to usual[1], % of respondents



Discretionary

	Intend to spend less	Intend to spend the same	Intend to spend more	Net intent	Net intent, Q3 ‘24 vs Q2 ‘24
Petcare services	21	67	12	-10	-3
Cruises	34	43	23	-11	1
International flights	32	50	18	-13	-7
Domestic flights	31	53	16	-15	-1
Hotel / resort stays	33	50	17	-16	-6
Entertainment at home	23	71	6	-16	-2
Personal care services	27	65	8	-19	-2
Short-term apartment or house rentals	35	50	15	-20	-5
Entertainment away from home	36	52	12	-23	-1
Meal at a sit-down restaurant	36	53	12	-24	0
Sports & outdoors equipment & supplies	36	54	10	-26	1
Apparel	37	52	11	-26	0
Alcoholic beverages	34	59	7	-27	-1
Footwear	38	53	9	-29	-1
Food delivery from an app	41	48	11	-30	2
Meal at quick service restaurants	40	50	10	-31	0
Home improvement & gardening supplies	42	49	9	-33	-11
Furniture	47	40	13	-34	4
Electronics for home or personal use	45	44	11	-34	3
Jewelry	48	39	13	-35	4
Decorations and products for home	46	46	8	-38	0
Accessories	49	42	8	-41	0

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1. Q: Over the next 3 months, do you expect that you will spend more, about the same, or less money on these categories than usual?

Consumers in all income classes are trading down, most prominently so in Spain among lower incomes…

% of respondents changing their shopping behaviour and trading down by generation and income, % of respondents

Income

Country:	EU5	Spain	Italy	France	Germany	UK
Low Income	74	80	78	76	69	67
Medium Income	76	77	80	74	74	72
High Income	70	70	73	68	69	73

…with stronger downtrading effects seen in younger generations

<70 <80 <85 >=85

Generation

Country:	EU5	Spain	Italy	France	Germany	UK
Generation Z	86	85	82	87	88	87
Millennial	82	83	83	79	80	84
Generation X	72	75	74	68	68	75
Boomers and Silent	61	64	73	64	59	48

1. Q: Within the past 3 months have you done any of the following when purchasing a product (asked across multiple categories)?

Source: McKinsey ConsumerWise EU5 Sentiment Data (UK, Germany, Spain, Italy and France), August 2024, [n=5,094]

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