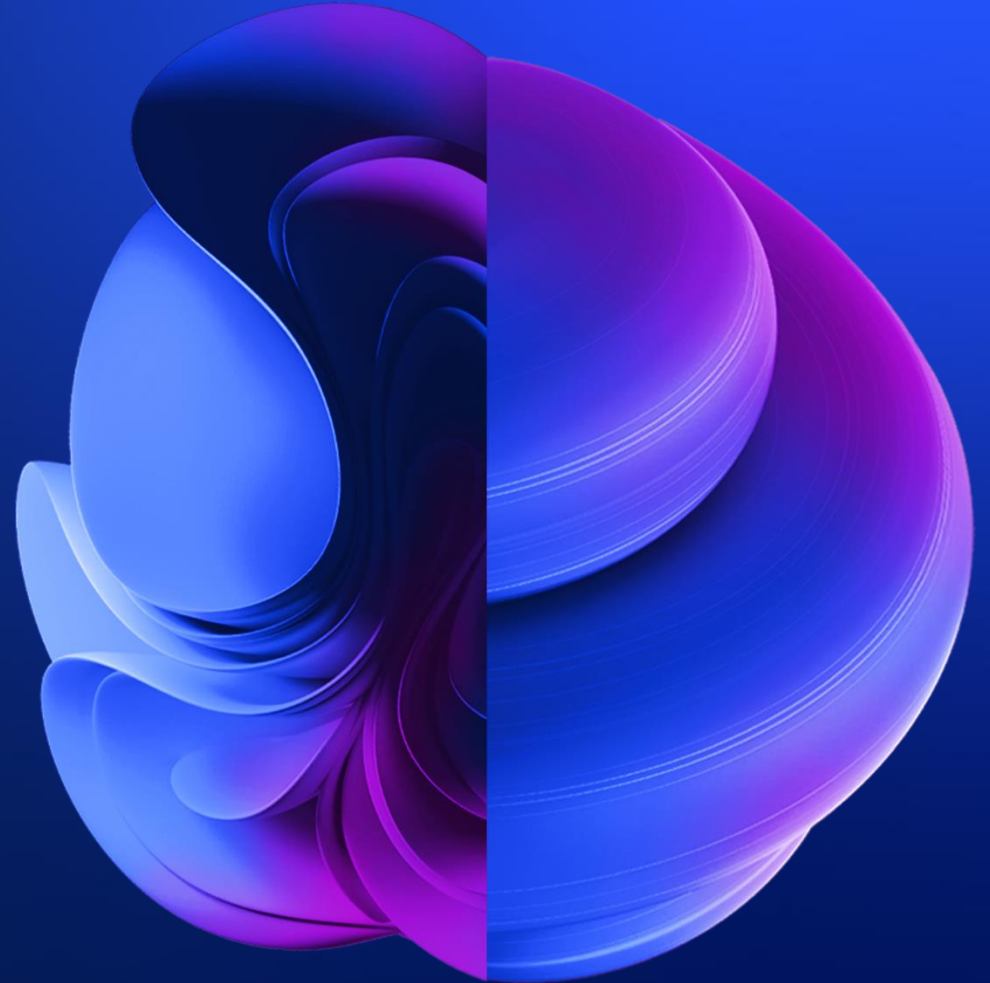


McKinsey Value Intelligence

Quarterly Perspective on Value Creation in European Consumer & Retail

3rd Quarter – Retail Issue | Summer 2024



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Spotlight perspective – Consumer sentiment update: A sunnier outlook ahead of summer?

Global Summary

European Central Bank cuts rates as other central banks hold; economic survey respondents remain cautious amid global uncertainty and expect more cuts.

Read the full report [here](#)

Global growth broadly unchanged amid persistent services inflation

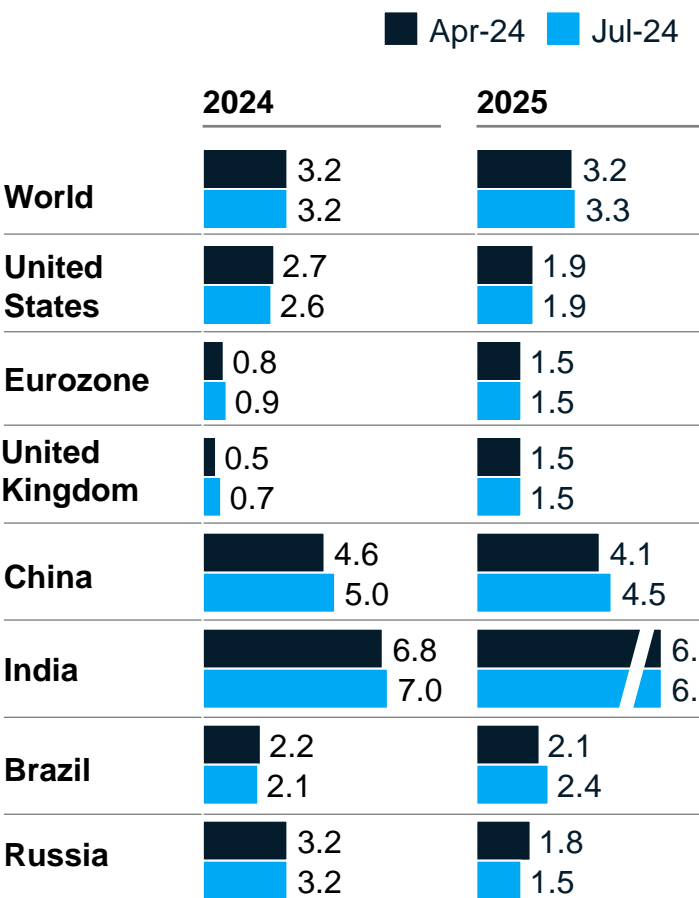
Relative to the April 2024 World Economic Outlook, Q1 growth surprised positively in many countries, although downside surprises, particularly in the United States, were notable.

Global growth is expected to remain stable. However, offsetting revisions have shifted the composition. In the United States, projected growth is marginally revised downward, reflecting the slower-than-expected start to the year. Growth is expected to slow in 2025 as the labor market cools and consumption moderates. In the Euro area, activity appears to have bottomed out. A modest pickup of 0.9 percent is expected for 2024, driven by stronger momentum in services and higher-than-expected net exports. Growth is projected to rise in 2025, underpinned by stronger consumption on the back of rising real wages, as well as higher investment amid gradual monetary loosening. The forecast for emerging market is revised upward; powered by stronger activity in Asia, particularly China and India.

Services inflation is holding up progress on disinflation, which is complicating monetary policy normalization. Upside risks to inflation have thus increased, raising the prospect of higher for even longer interest rates, in the context of escalating trade tensions and increased policy uncertainty.

Real GDP growth: IMF Projections

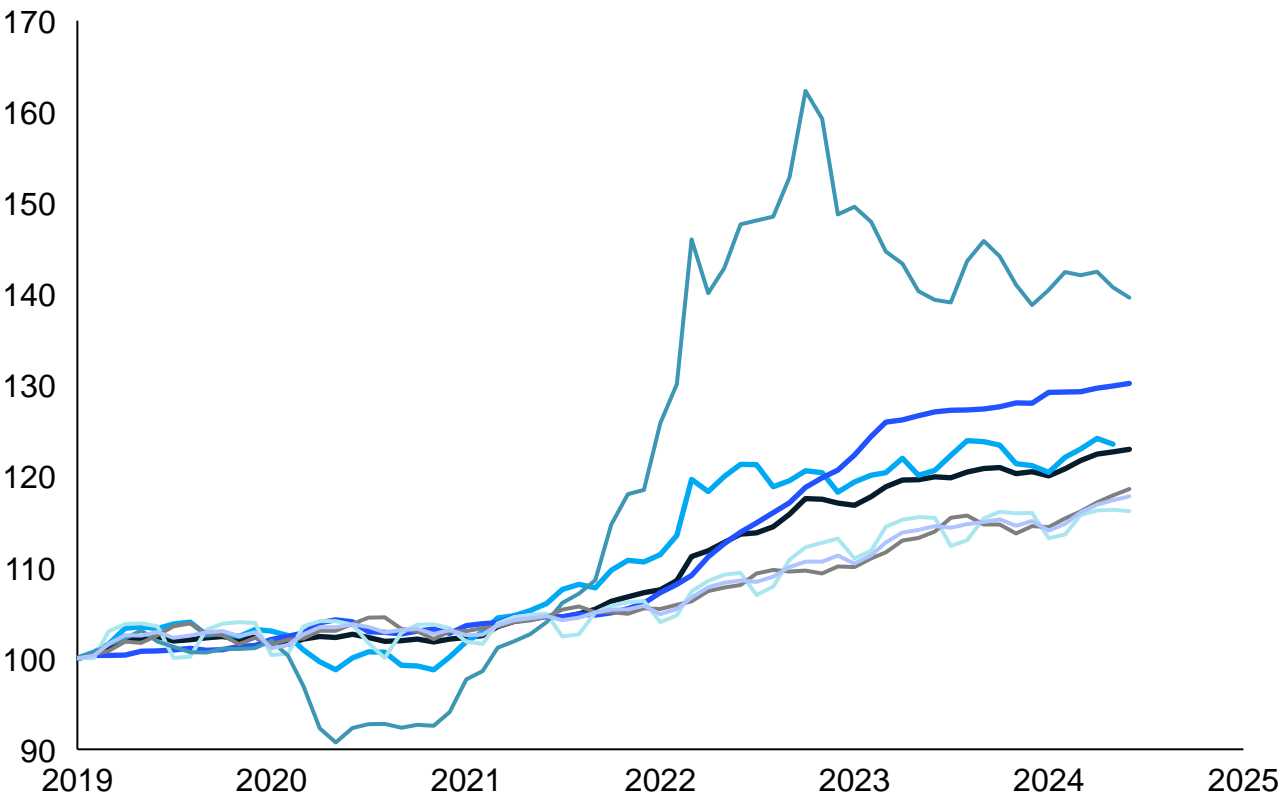
Percent



Eurozone inflation was broadly stable, at 2.5% in June; core inflation was still flat at 2.9%, due to stubbornly high services inflation

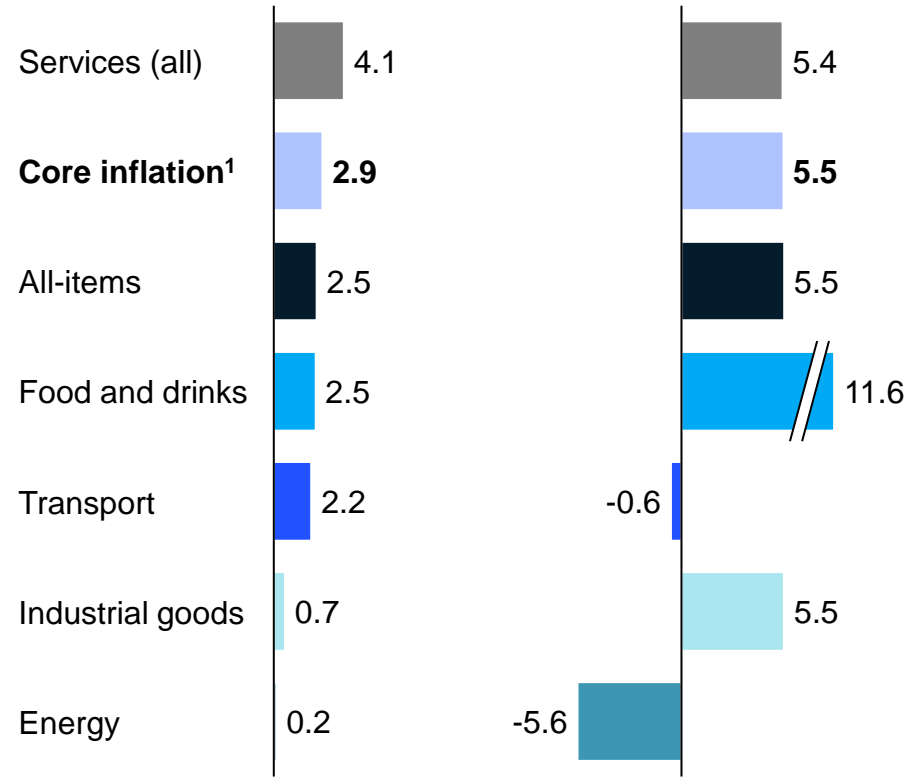
Harmonized Index of Consumer Prices (Eurozone)

Index (Jan 2019=100%)



Change (%)
Jun 2023 – 2024

Compare:
Jun 2022 – 2023

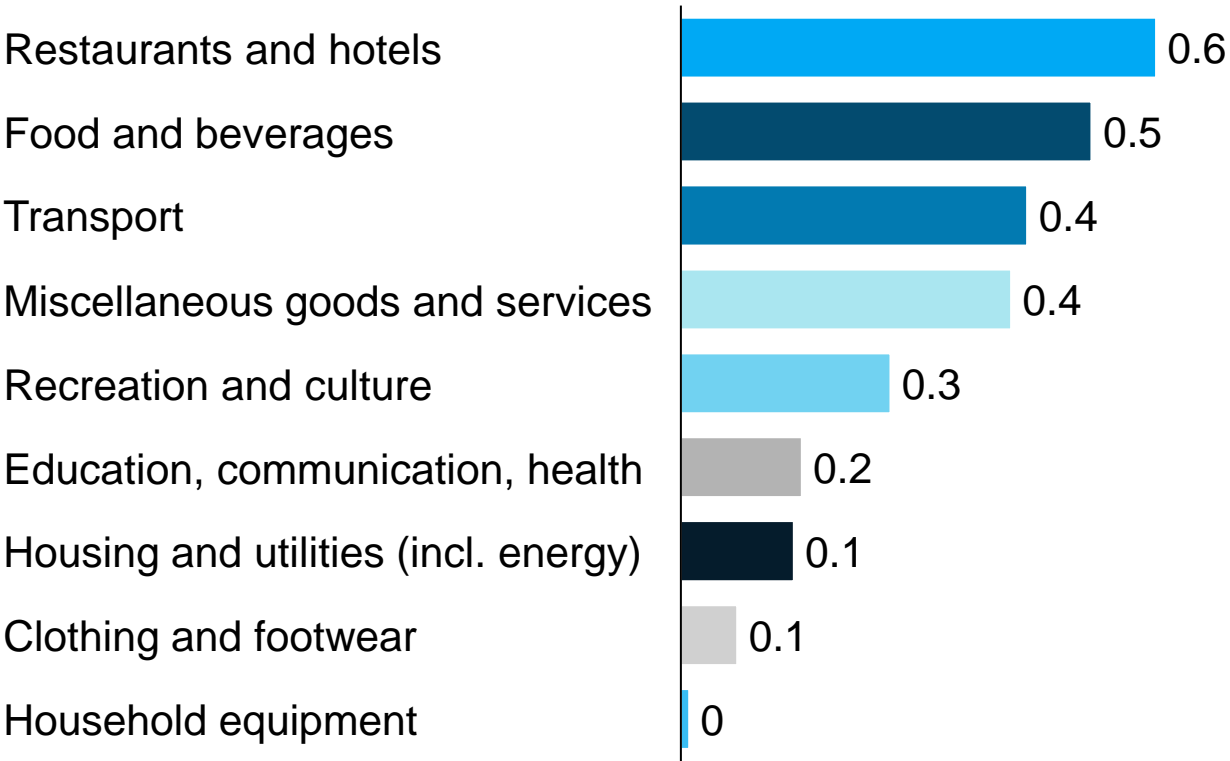


1. Overall index excluding food, energy, alcohol and tobacco

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

Contribution to Eurozone annual inflation of 2.5%

Percentage points contribution



Eurozone inflation was 2.5% in June, marginally down from May's reading and broadly in line with the numbers posted in previous months.

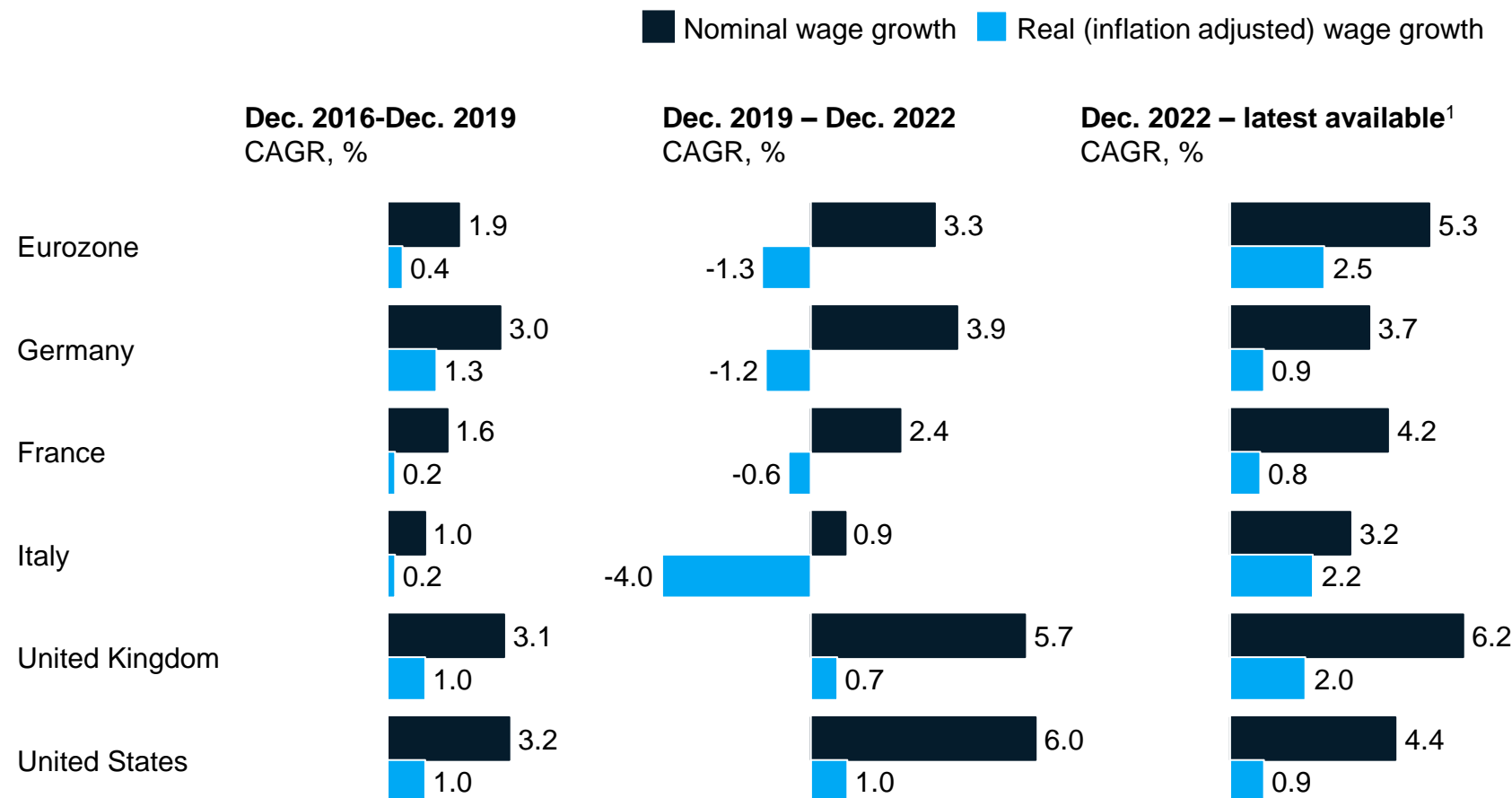
The fall was driven by slower dynamics in the food and energy components. Core inflation was flat at 2.9%, while services inflation remained stubbornly high at 4% and non-energy industrial goods unchanged.

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, marginally, 0.2 pp higher than in March projection.

Despite higher forecasts, the ECB cut its main rates by 25bps at the June meeting. However, uncertainty in the coming months remains high, with next possible monetary policy move likely to be at the September meeting.

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

Real incomes are growing in line with inflation coming down



4.8%

ECB nominal wage growth forecast for 2024² in Eurozone

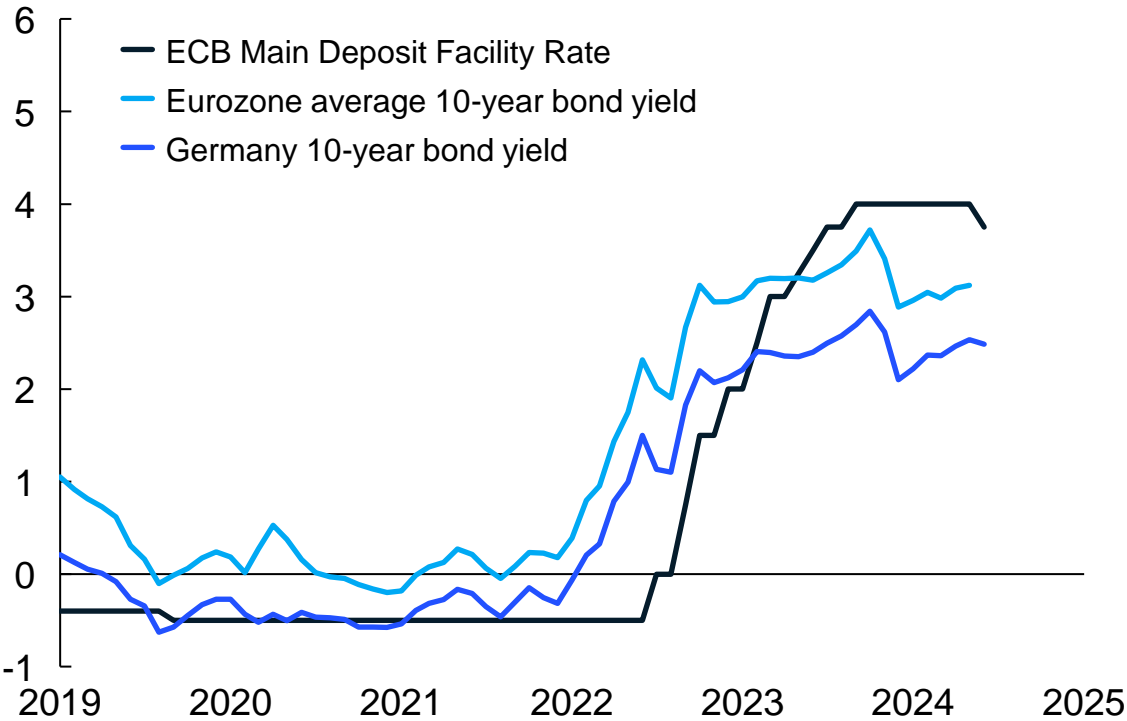
Compared to expected consumer inflation of 2.5% indicates higher real wage growth

1. US, Italy: May 2024; UK: April 2024; Eurozone, Germany, France: quarterly data through 2024:Q1
2. ECB forecasts as of June 2024
Note: Aggregate wages capture: Italy, France, Germany, Eurozone - total economy; the UK & the US - private sector

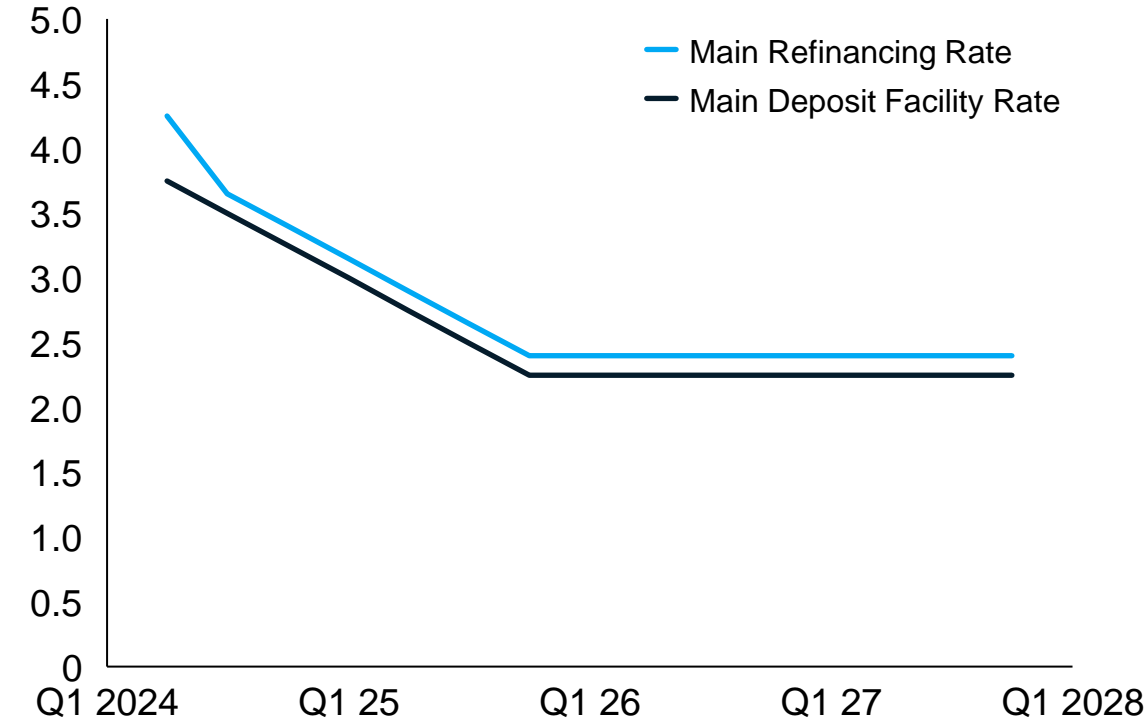
The ECB cut its policy rates by 25 basis points at its June meeting, with further easing expected to be gradual

Progress on domestic inflation and wages have not been fast enough to reduce the ECB's hawkish tilt

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



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

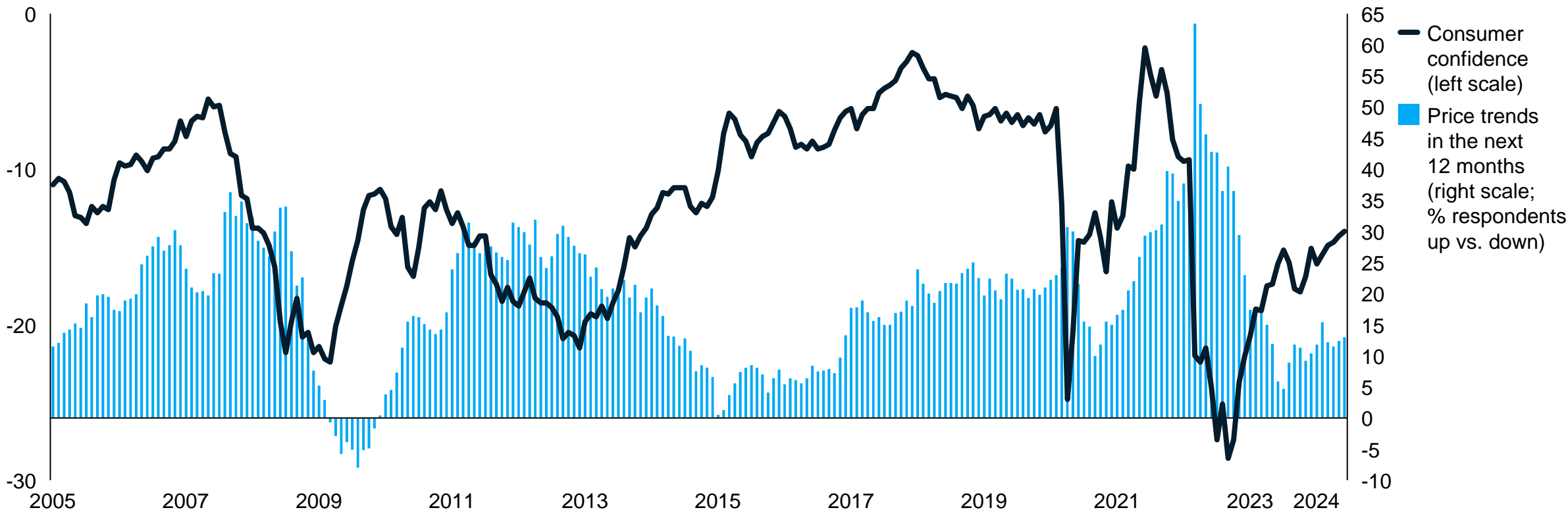


Consumer confidence has increased between March and June but remains at weak levels

This indicates only a modest recovery in consumer spending

Consumer confidence indicator
Percent balance, SA, through June 2024

Consumer expectations of price trends in the next 12 months¹
Percent balance, SA, through June 2024



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: $B = (MM + \frac{1}{2}M) - (\frac{1}{2}P + PP)$; where MM = increase more rapidly; M = increase at the same rate; P = stay about the same; PP = fall

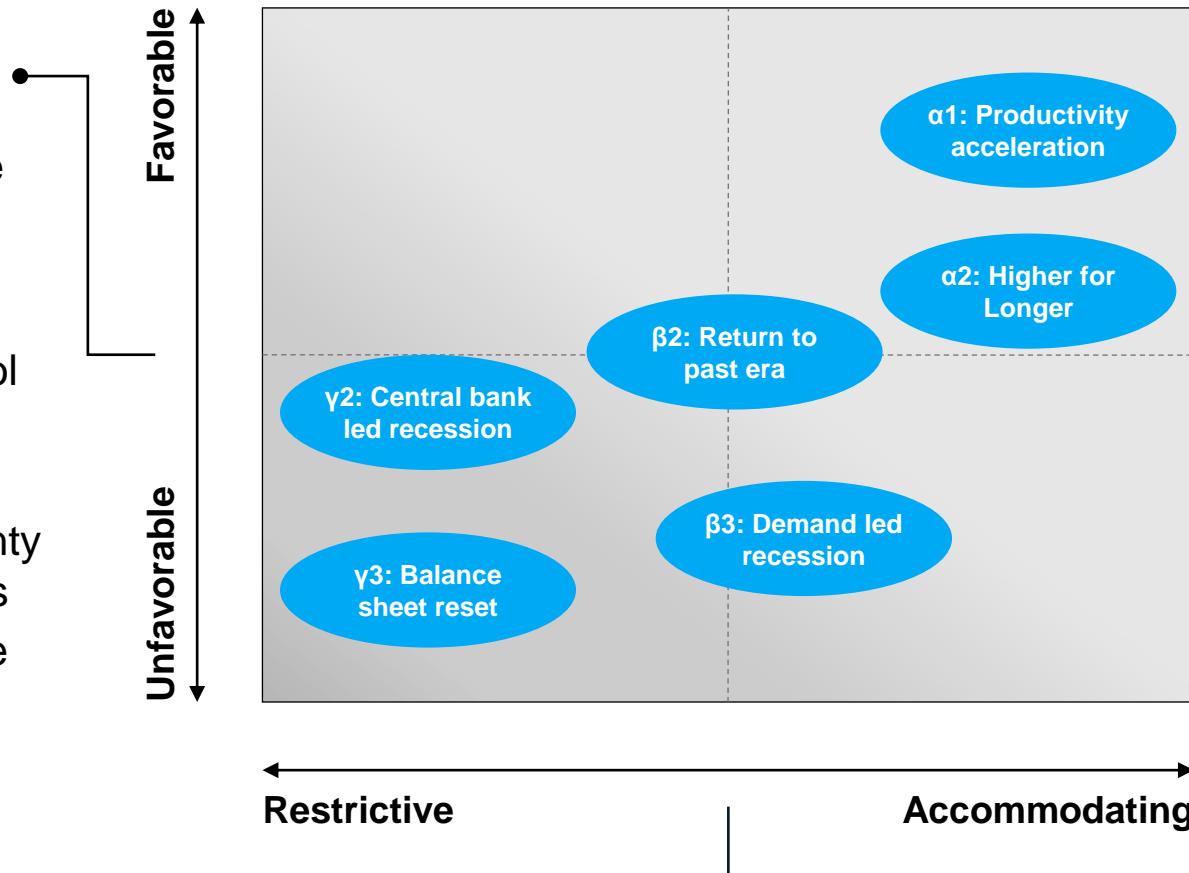
Eurozone GDP Growth

McKinsey Macro & Markets Scenarios, June 2024

Structural forces

The forces that promote or constrain sustainable growth and shared prosperity, and are beyond the direct control of policy

- Macro uncertainty
- Geopolitical uncertainty and global institutions
- Technological change
- Energy systems
- Demographics



Policy choices

The fiscal, monetary and regulatory policy choices that create the local conditions for prosperity within the global economic environment

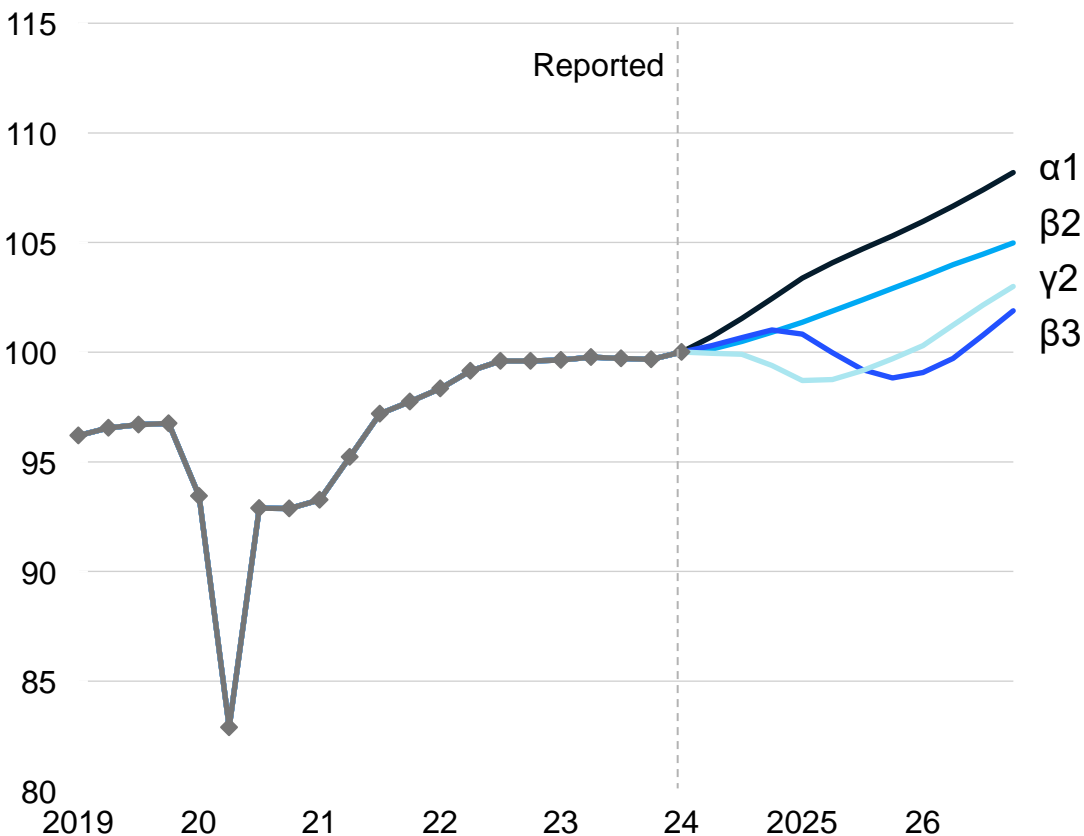
- Government spending and taxes
- Business regulations & legal frameworks
- Interest rates and financial conditions

Eurozone GDP Growth

McKinsey Macro & Markets Scenarios, June 2024

Real GDP

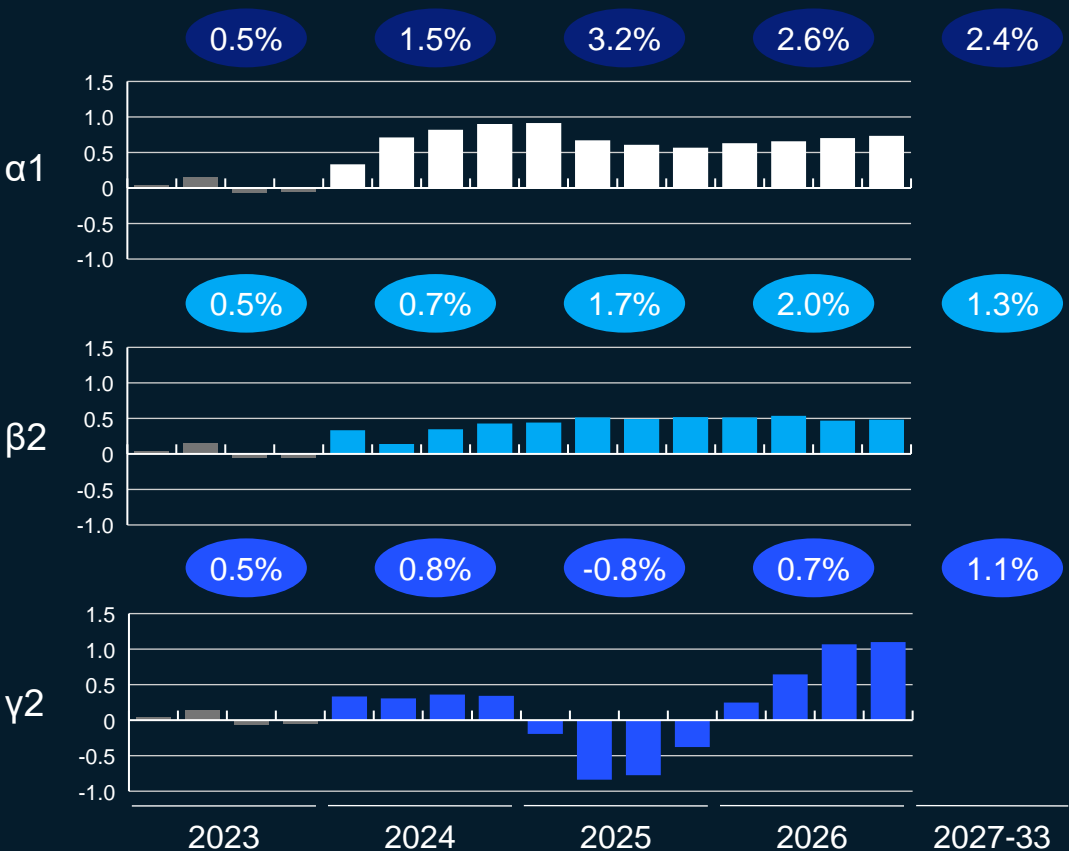
Indexed, 2024 Q1=100



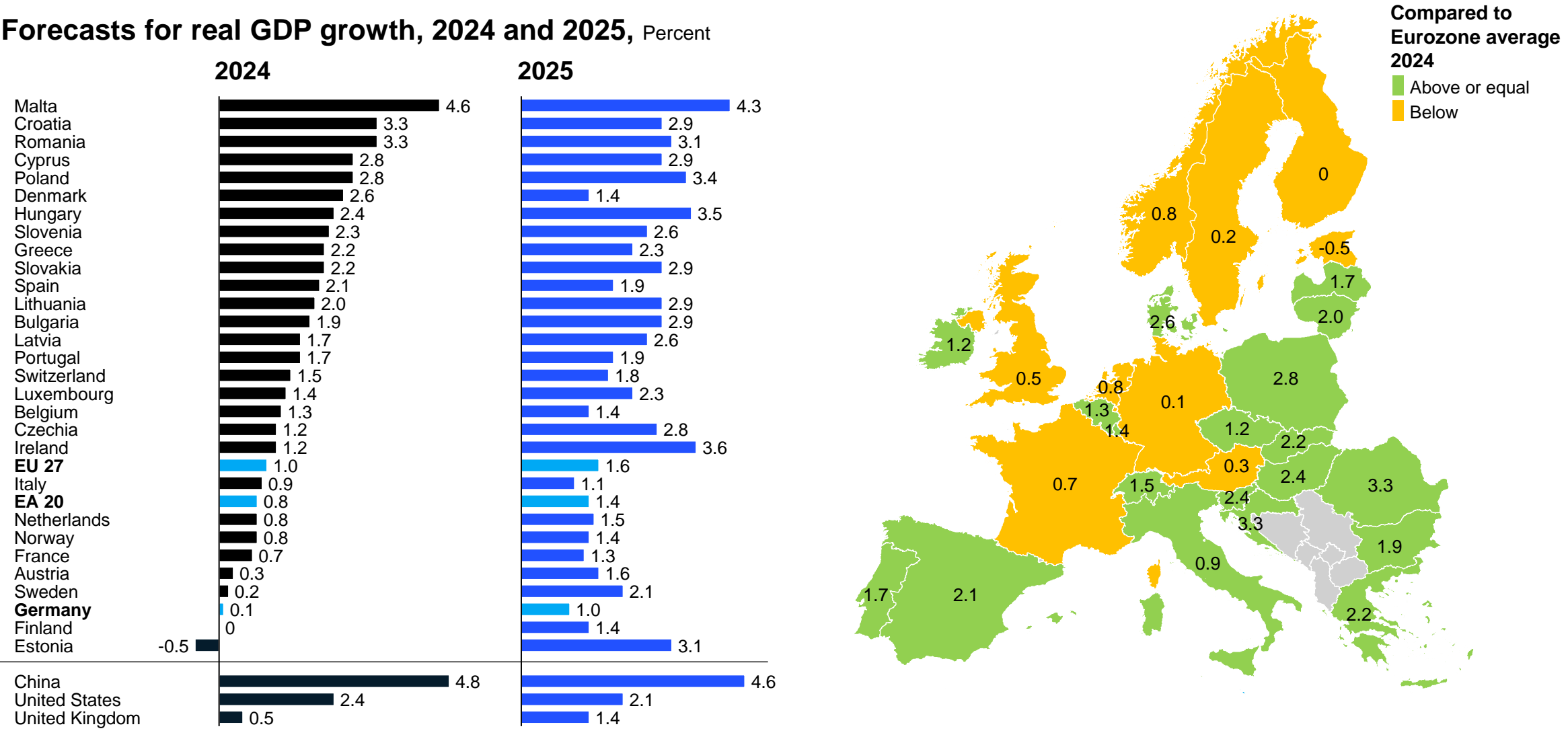
Source: National statistics agencies; McKinsey analysis, in partnership with Oxford Economics

Real GDP

Percent change, quarterly, annual, and CAGR



2024 German GDP outlook weak in international comparison – outlook tends to be better in Eastern and Southern Europe



Real Disposable Income



Real disposable income growth has accelerated its recovery in early 2024, benefitting from continued disinflation and still resilient labor markets.

Unemployment close to historic lows and a tight labor market have supported nominal wage growth exceeding 5% year-on-year in Q1 2024. Compared to consumer inflation around 2.5%, this indicates improving real wage growth and purchasing power.

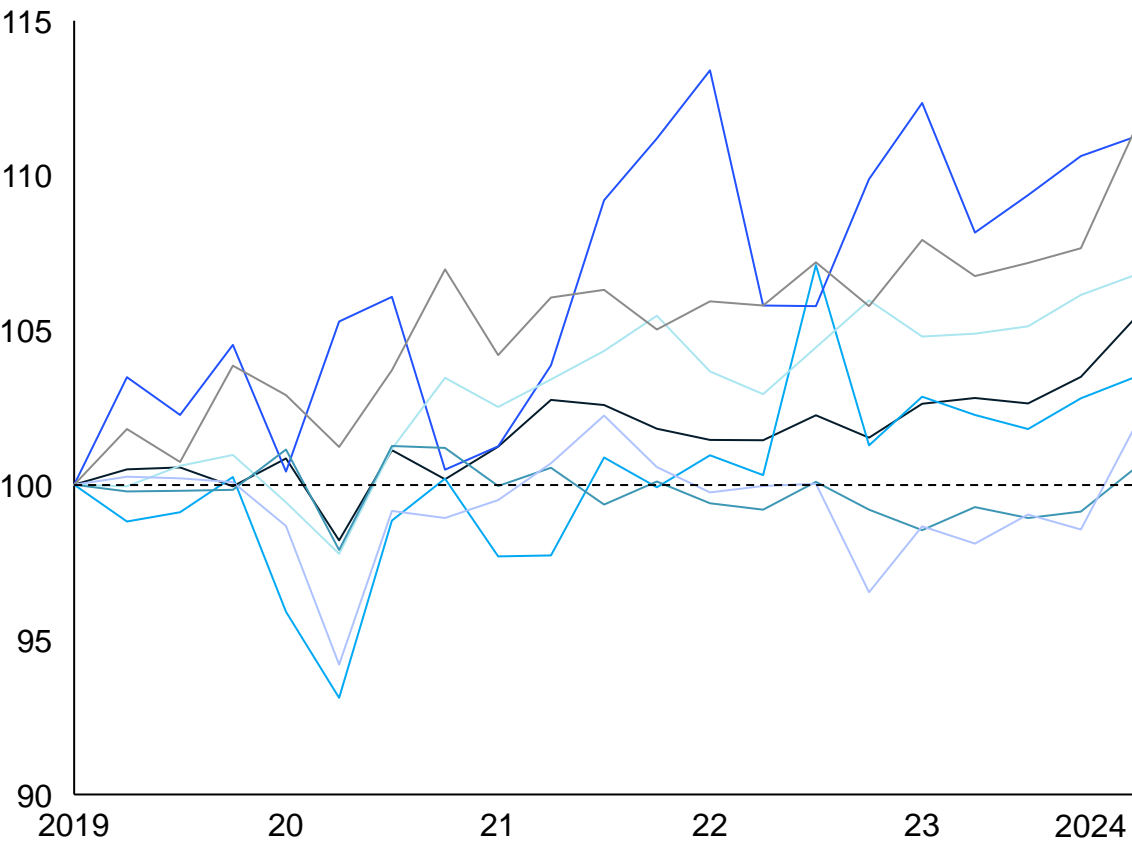
Real incomes are expected to pick up further, catching up with the previous inflation surge. Recent high frequency data suggests only moderate easing after the Q1 increase. On the other hand, worsening companies' employment expectations could be a first indicator to an end to a period of excess labor demand.

Real disposable income (1/2)

Real incomes started to recover as wages have been growing faster than inflation

Personal disposable income, real¹

Index (2019 Q1=100), Quarterly



	Change (%) Q1 21 – Q1 22	Change (%) Q1 22 – Q1 23	Change (%) Q1 23 – Q1 24
Europe ²	0.2	1.1	2.7
Austria	3.3	1.9	0.6
Denmark	12.0	-0.9	-1.0
France	1.1	1.1	1.9
Germany	-0.6	-0.9	2.0
Italy	0.3	-1.1	3.2
Netherlands	1.7	1.9	3.2

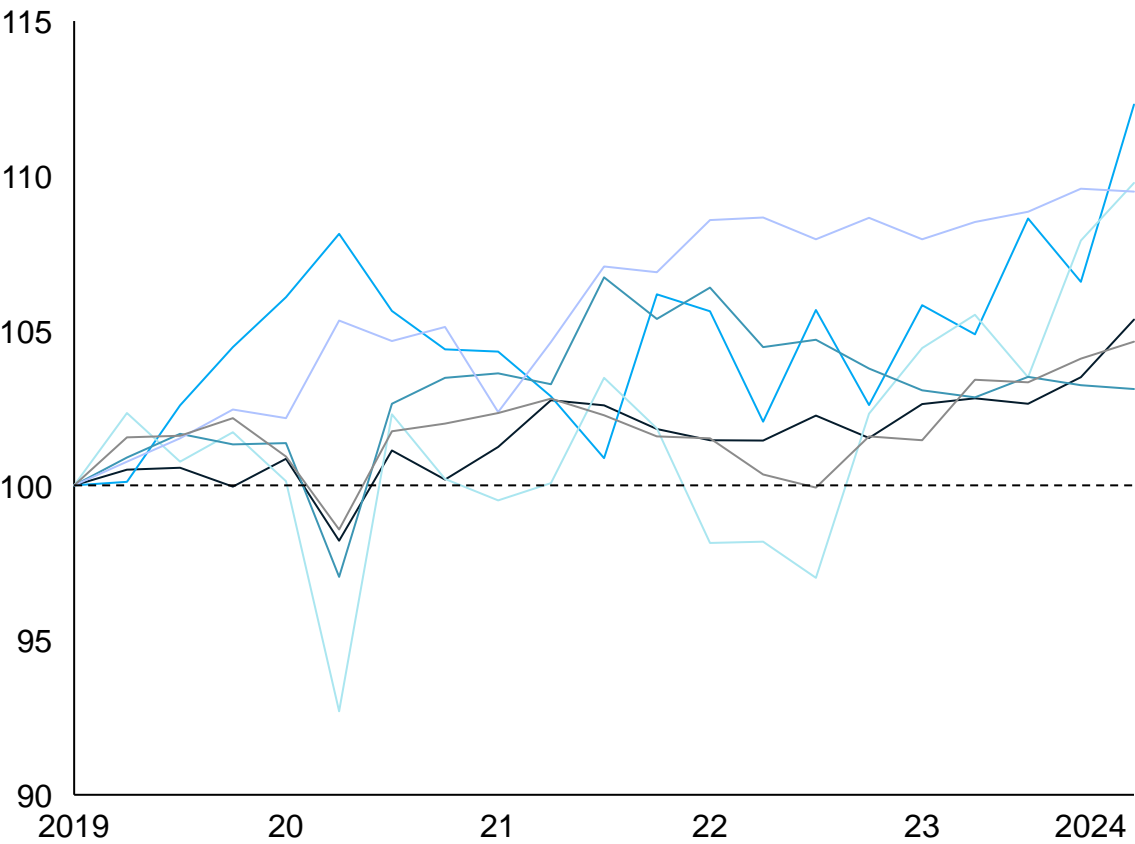
1. Eurozone, Austria: data for Q1 2024 estimated by Oxford Economics 2. All European Union Member States in the euro area

Real disposable income (2/2)

Real incomes started to recover as wages have been growing faster than inflation

Personal disposable income, real¹

Index (2019 Q1=100), Quarterly



	Change (%) Q1 21 – Q1 22	Change (%) Q1 22 – Q1 23	Change (%) Q1 23 – Q1 24
Europe ²	0.2	1.1	2.7
Poland	1.2	0.2	6.1
Russia ³	1.4	7.3	5.8
Spain	-1.4	6.4	5.1
Sweden	2.7	-3.1	0
Switzerland	6.1	-0.6	1.4
United Kingdom	-0.8	-0.1	3.1

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

Consumer Confidence



Consumer confidence has continued moderate increases in April-June, apart from France and Italy, but remains at low levels, still indicating only a modest recovery of consumer spending. Over the last three months, gradual recovery of consumer confidence was backed by slowing inflation, and resilient labour market with historically low unemployment and improving real incomes.

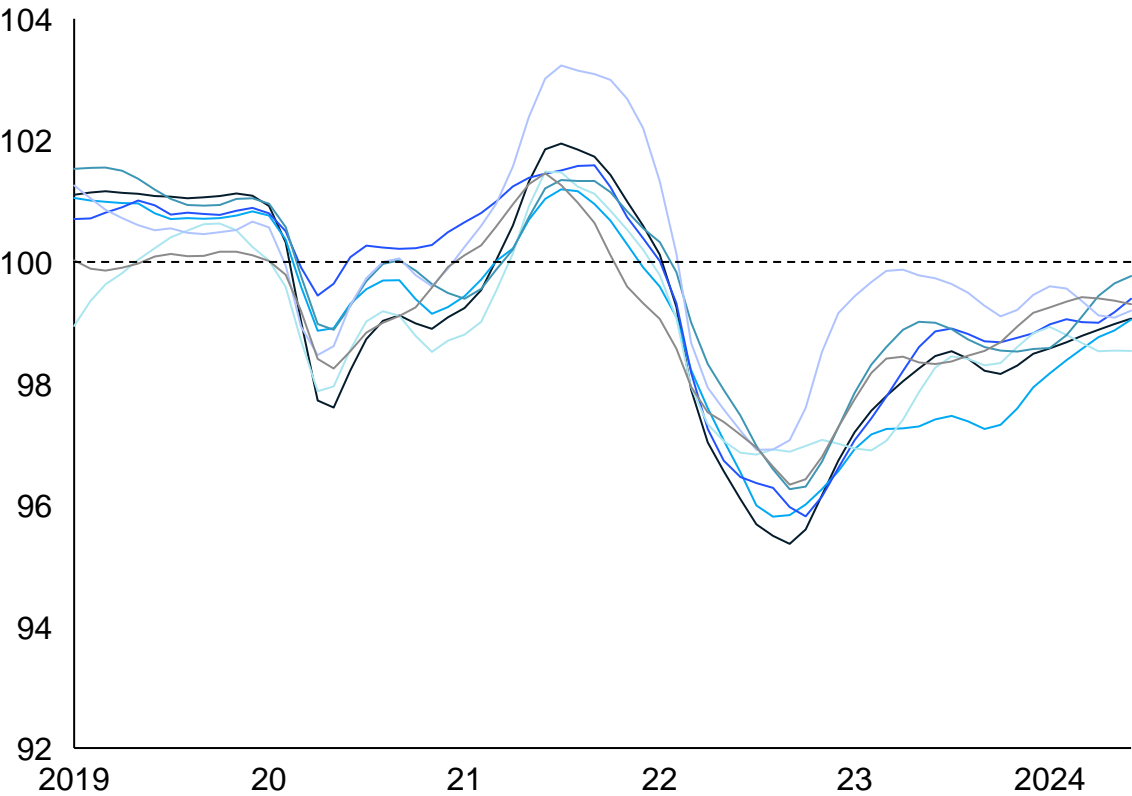
Yet, confidence remains subdued amid persistently high interest rates, affecting mortgage and consumer credit rates. In addition, households' saving ratios have stabilized above pre-pandemic levels, contributing to lower propensity to spend. More cautious behavior may persist, given a more uncertain outlook and increasing geopolitical tensions.

Consumer Confidence (1/2)

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

Consumer Confidence

Index, Monthly



	Change (%) Dec 21 – Dec 22	Change (%) Dec 22 – Dec 23	Change (%) Dec 23 – Jun 24
Europe ¹	-3.9	1.8	0.6
Austria	-3.4	1.4	1.1
Denmark	-3.8	2.3	0.6
France	-3.3	1.9	-0.3
Germany	-3.3	1.3	1.2
Italy	-3.0	0.3	-0.3
Netherlands	-2.1	1.9	0.1

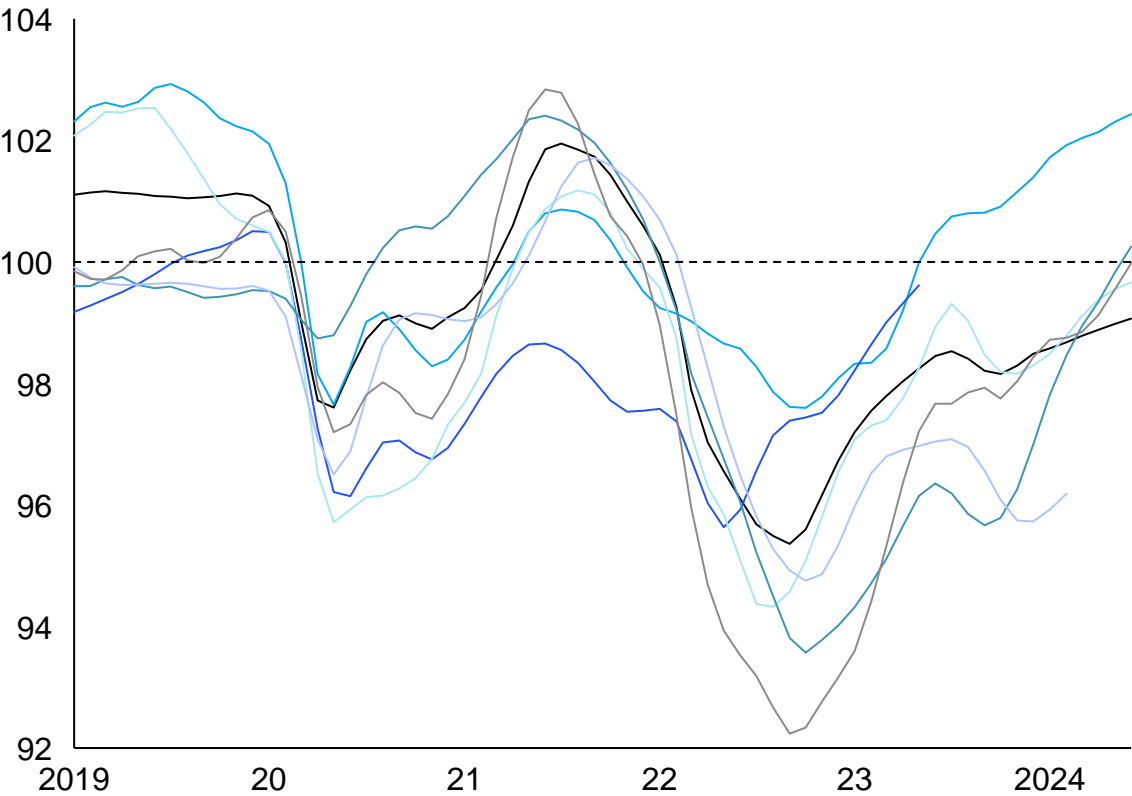
1. All European Union Member States in the euro area; to December 2023

Consumer Confidence (2/2)

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

Consumer Confidence

Index, Monthly



	Change (%) Dec 21 – Dec 22	Change (%) Dec 22 – Dec 23	Change (%) Dec 23 – Jun 24
Europe ¹	-3.9	1.8	0.6
Poland	-1.4	3.4	1.0
Russia ²	0.3	1.9	
Spain	-3.4	1.8	1.4
Sweden	-6.8	3.3	3.4
Switzerland ³	-5.7	0.4	0.5
United Kingdom	-6.8	5.9	1.6

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

Private Consumption



The Eurozone's real private consumption in Q1 2024 increased by 0.8% year-over-year. In terms of sequential growth, it grew by 0.2% quarter-on-quarter, maintaining the dynamics from Q4 2023. Private consumption recovered to Q4 2019 levels already in Q3 2023 and has realized only moderate growth since then. Growth in nominal terms – previously boosted by elevated price growth – eased in line with continuing disinflation.

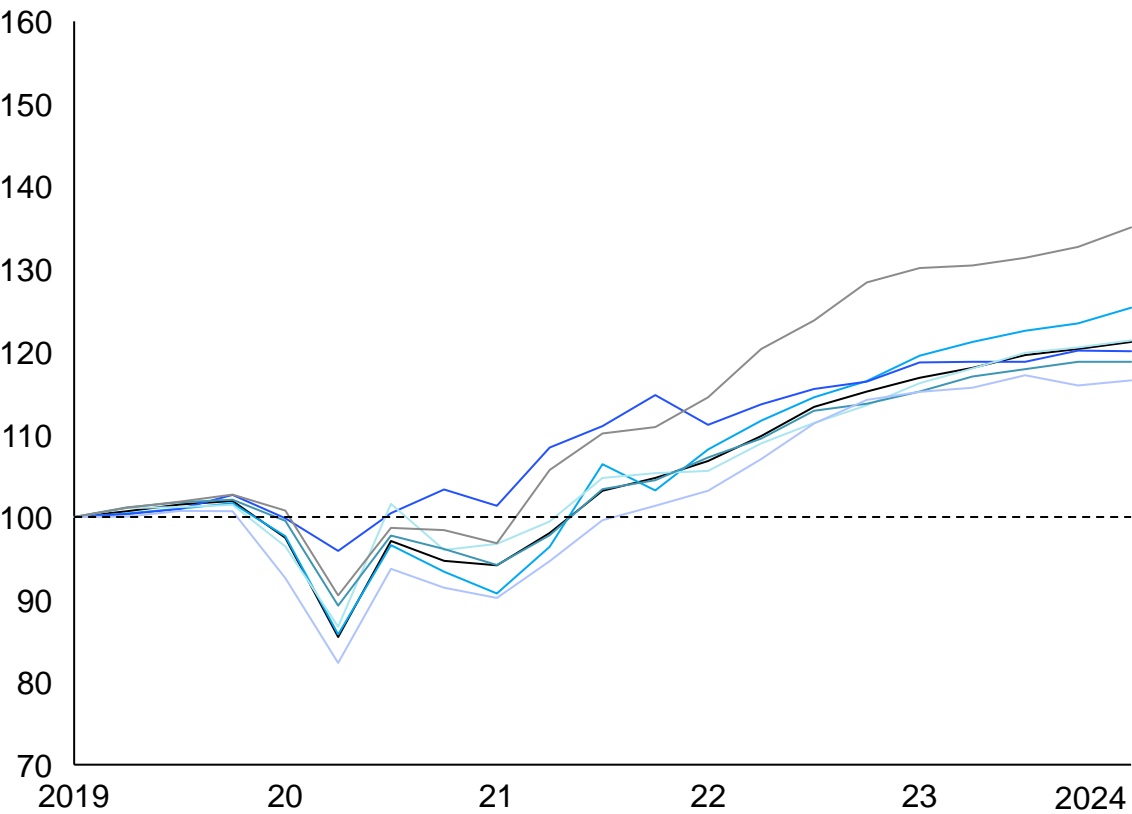
Baseline expectations assume a gradual consumer recovery in 2024, primarily based on a return to growth in real incomes. However, recovering real incomes have struggled to translate into solid spending growth as savings rates have stabilized above pre-pandemic levels. The key factor holding back consumers from spending more is tight monetary policy. High interest rates have made savings more attractive after a decade of near-zero returns on deposits leading up to the pandemic. For this reason, consumer recovery pace is likely to follow ECB policy easing.

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 (%) Q1 21 – Q1 22	Change (%) Q1 22 – Q1 23	Change (%) Q1 23 – Q1 24
Europe ¹	13.4	9.4	3.7
Austria	19.2	10.5	4.9
Denmark	9.7	6.8	1.1
France	9.1	10.0	4.5
Germany	13.8	7.5	3.1
Italy	14.4	11.6	1.2
Netherlands	18.3	13.7	3.8

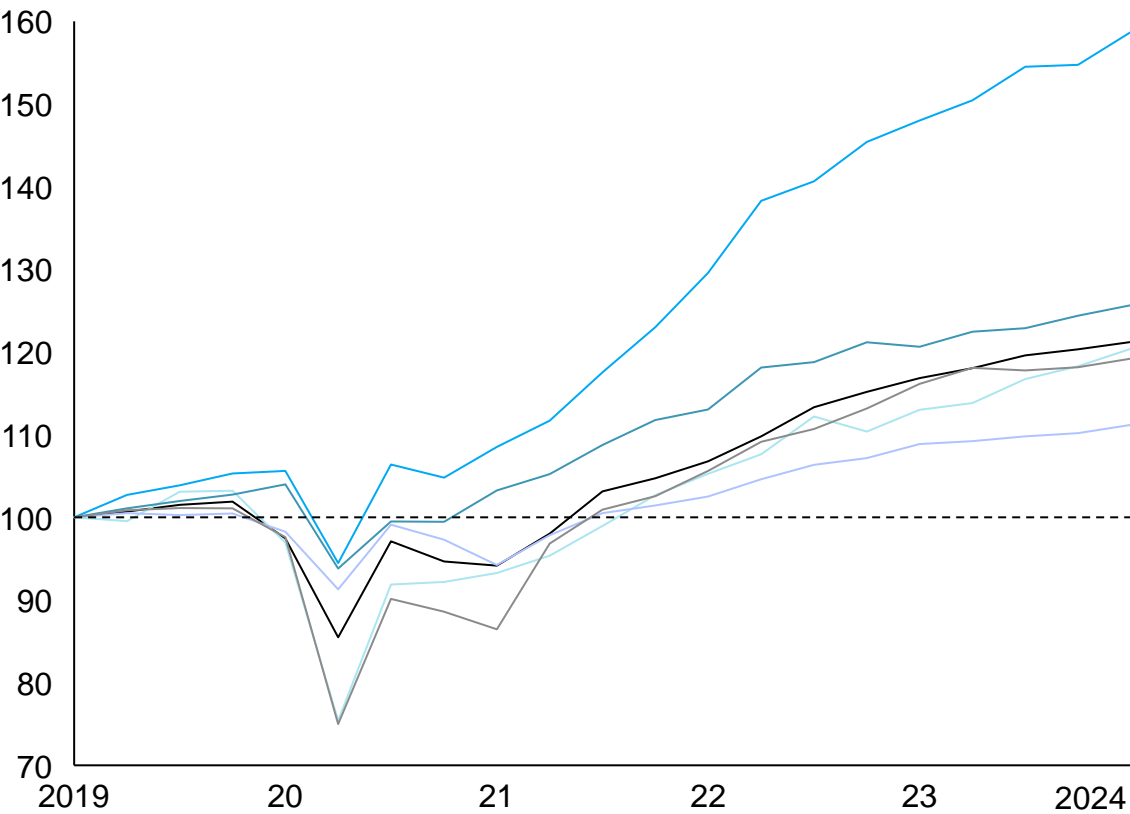
1. All European Union Member States in the euro area

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	13.4	9.4	3.7
Poland	19.4	14.2	7.2
Russia	19.1	7.5	14.4
Spain	12.9	7.4	6.5
Sweden	9.5	6.7	4.2
Switzerland	8.8	6.2	2.1
United Kingdom	22.2	9.9	2.6

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

Retail Sales



Eurozone real retail sales volume has stagnated in Q1 2024, after 0.3% quarter-on-quarter recovery in Q4 2023. Following an annual decline of 2% in full-year 2023, retail sales volume has remained slightly above its pre-pandemic level, but below “post-lockdown” recovery levels from 2021-22. Nominal spending, previously boosted by higher price levels, also has grown moderately.

Weak retail sales growth reflects still subdued household sentiment. Despite decelerating inflation, consumers remain cautious due to perceived higher cost-of-living. Also, still high interest rates continue to dampen spending as they increase credit costs and make returns on savings more attractive for consumers.

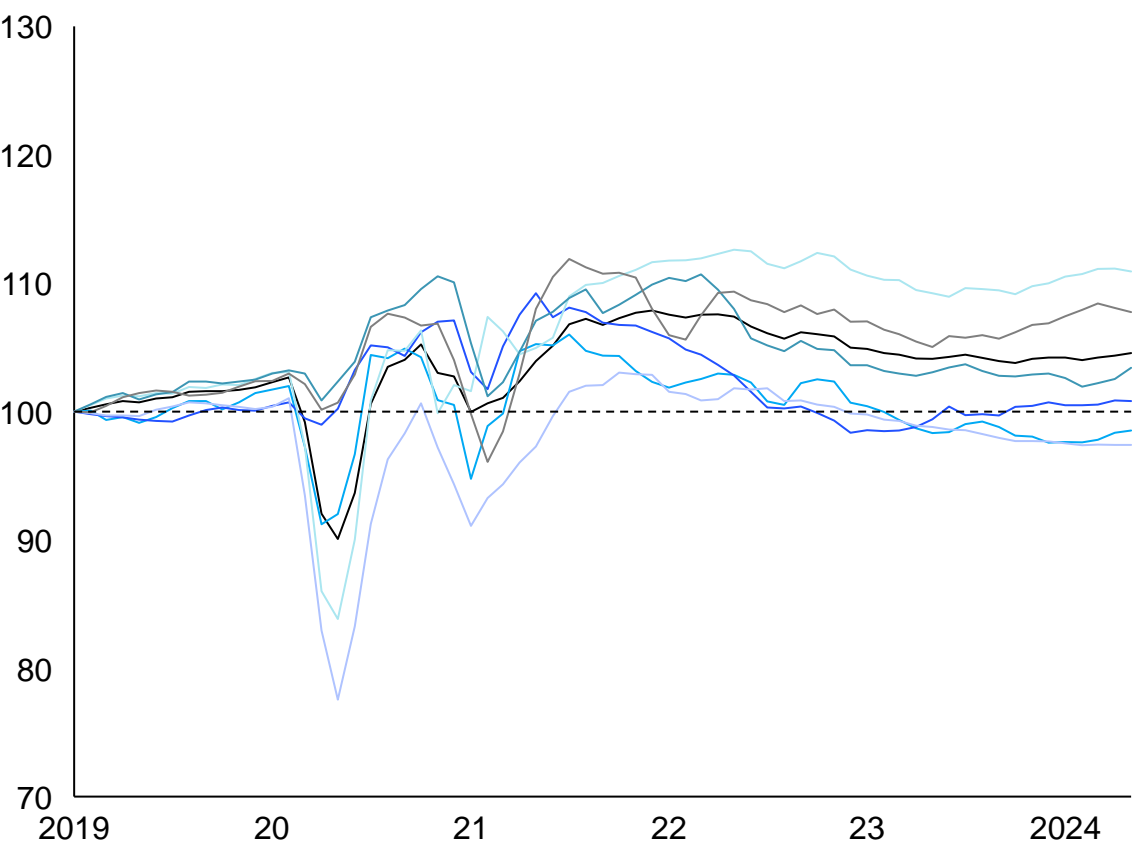
Any improvement in retail sales dynamics would follow further purchasing power recovery and monetary policy easing.

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 – May 24
Europe ¹	-2.7	-0.7	0.3
Austria	-1.6	-3.1	1.0
Denmark	-7.4	2.4	0.1
France	-0.5	-1.0	0.9
Germany	-5.7	-0.6	0.4
Italy	-2.9	-2.2	-0.3
Netherlands	-0.9	-0.1	0.8

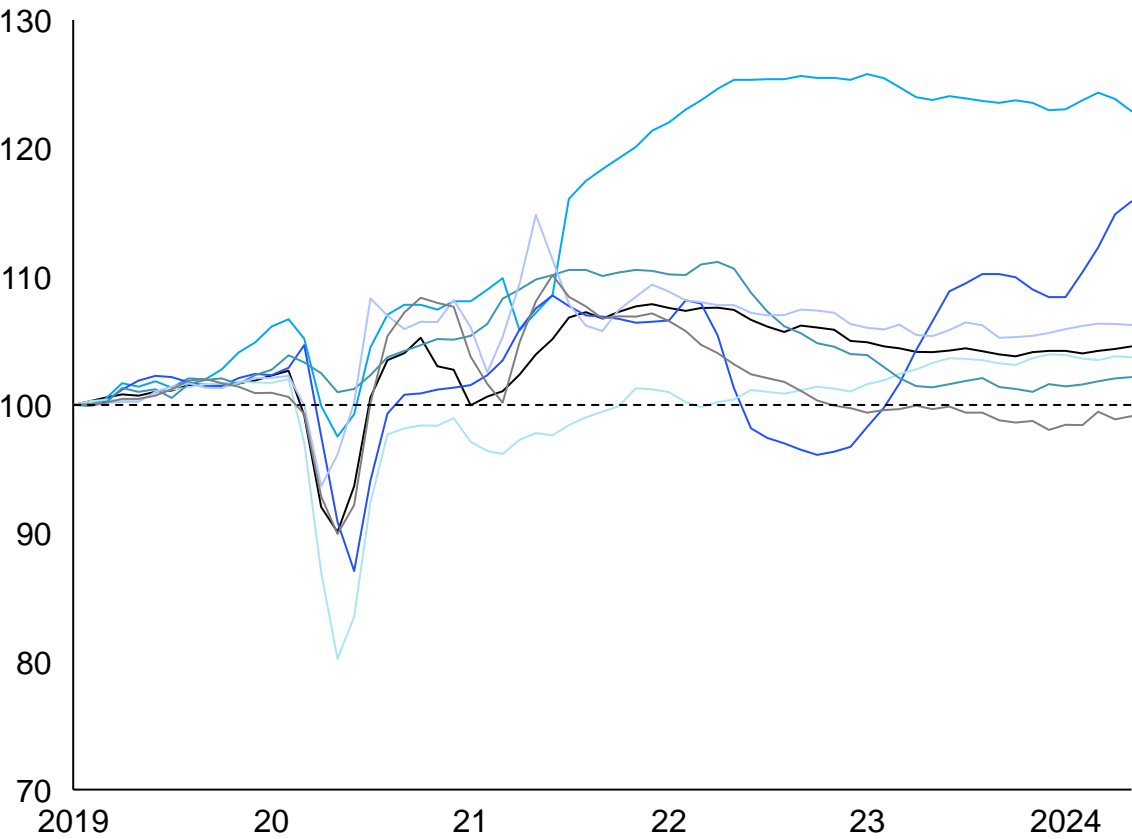
1. All European Union Member States in the euro area

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
Europe ¹	-2.7	-0.7	0.3
Poland	3.3	-1.9	-0.1
Russia	-9.2	12.1	6.9
Spain	-0.2	2.8	-0.2
Sweden	-5.9	-2.3	0.5
Switzerland	-2.8	-0.7	0.6
United Kingdom	-6.9	-1.7	1.1

1. All European Union Member States in the euro area

Consumer Prices



Headline inflation in the Eurozone was 2.5% in June, broadly in line with the monthly numbers posted this year. Core inflation was flat at 2.9%, while services inflation remained stubbornly high at 4%.

While recent data could have added to worries that the disinflationary trend was about to run out of steam, most indicators of underlying inflation and inflation expectations have fallen further in recent months, confirming easing of price pressures. Still, domestic inflation pressure remains elevated as wages are still rising at an elevated pace, making up for the past inflation surge.

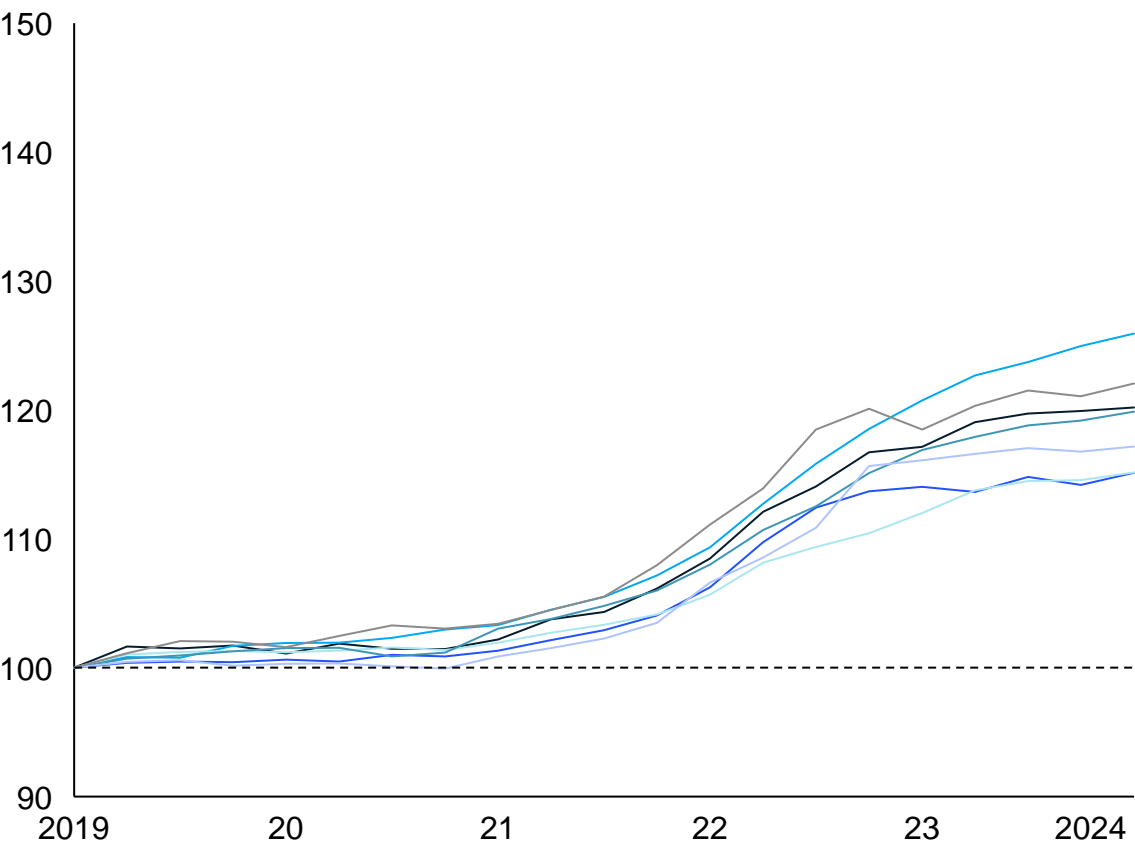
The European Central Bank has cut its policy rates by 25 basis points at its June meeting, with further easing expected to be gradual. Progress on domestic inflation and wages have not been fast enough to reduce the ECB's tilt.

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



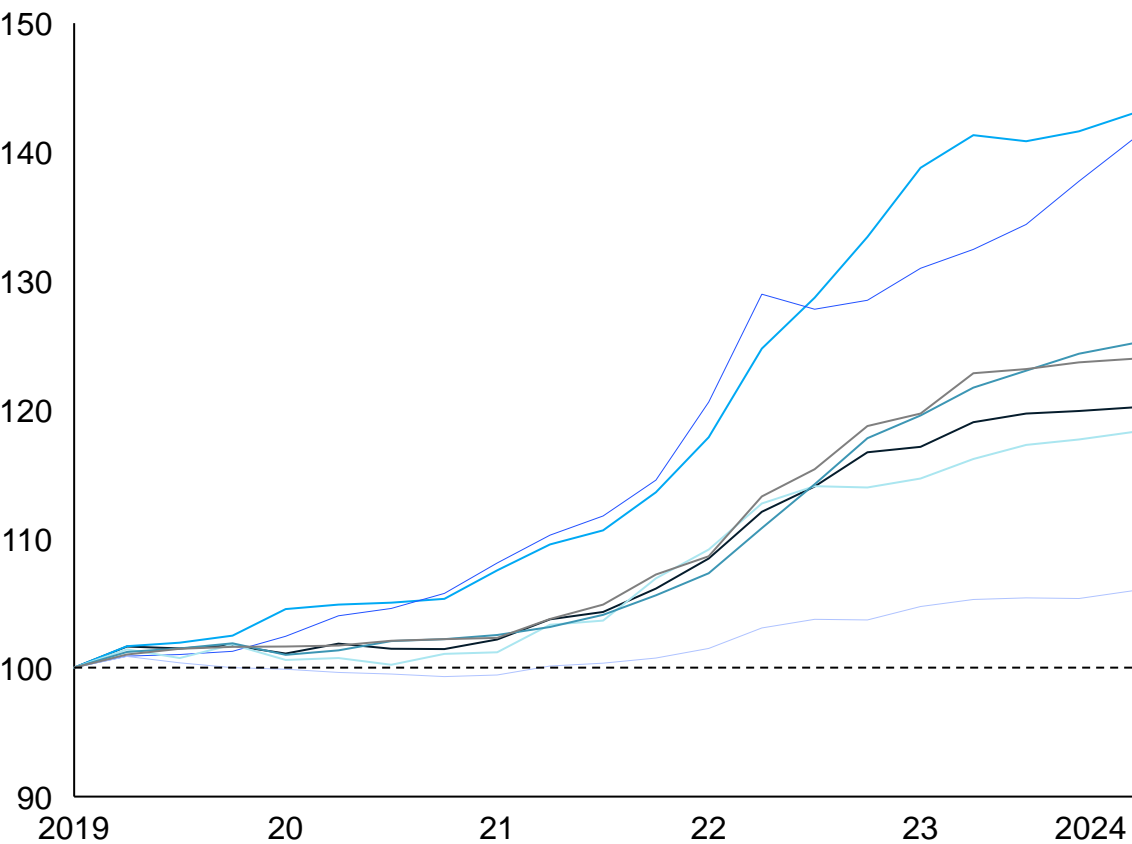
	Change (%) Q1 21 – Q1 22	Change (%) Q1 22 – Q1 23	Change (%) Q1 23 – Q1 24
Europe ¹	6.1	8.0	2.6
Austria	5.8	10.4	4.3
Denmark	4.8	7.3	1.0
France	3.7	6.0	2.8
Germany	4.8	8.2	2.5
Italy	5.7	8.9	0.9
Netherlands	7.4	6.6	3.0

1. All European Union Member States in the euro area

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



1. All European Union Member States in the euro area

	Change (%) Q1 21 – Q1 22	Change (%) Q1 22 – Q1 23	Change (%) Q1 23 – Q1 24
Europe ¹	6.1	8.0	2.6
Poland	9.6	17.7	3.0
Russia	11.5	8.6	7.6
Spain	7.9	5.1	3.1
Sweden	4.7	11.4	4.7
Switzerland	2.1	3.2	1.2
United Kingdom	6.2	10.2	3.5

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2024 in Retail

Main developments (TSR)

Global stock markets are up 11% in 2024 so far, continuing the strong trajectory from 2023 (+17%), with multiples remaining close to long-term averages. A few industries (Semiconductors and Media & Entertainment) continue their outperformance in 2024, while Retail and AF&L are average performers.

After a strong recovery in 2023, most retail subsegments have continued to show positive TSR in 2024 globally, except for Specialty, Sports and Wholesale. While the downturn in 2022 was more severe, Europe showed a stronger recovery in 2023. The picture for Europe in 2024 so far is similar to the global trend.

Retail subsegments experienced a growth slowdown in 2023 versus the very strong growth year 2022. Broadly, growth is expected to increase again in 2024 and 2025. Margins are expected to stay relatively flat – a sign that retail companies have increasingly been able to pass on cost pressures driven by inflation and supply issues.

Last quarter's earnings season saw most companies beat EBITDA consensus, after which forward-looking estimates were adjusted upwards accordingly. The revenue picture proved more diverse. Impact on share prices was minor during the day of the earnings announcement for most cases, even though some saw share price movements of more than 10%.

Value creation drivers

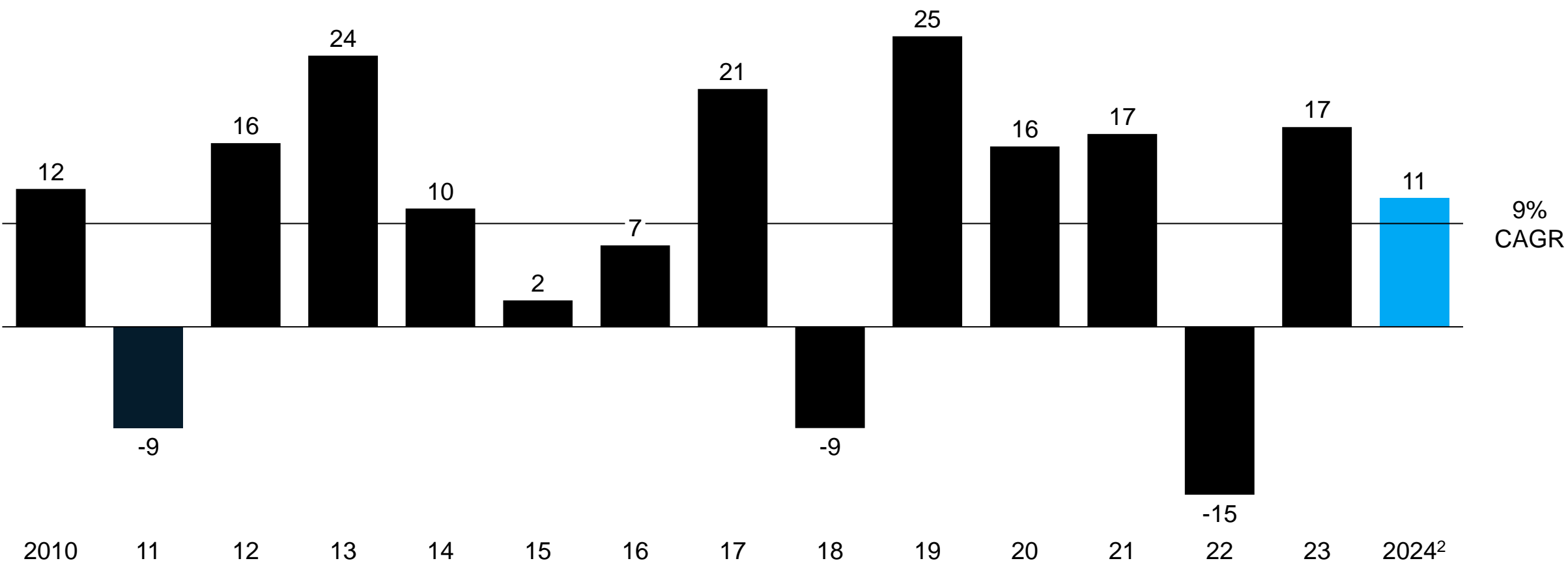
Retail companies that attract high valuations have higher long-term growth expectations, continuing their superior historical performance. The margin picture is more diverse across sub-sectors.

Even though valuations of companies with relatively high ROICs are typically more sensitive to changes in growth than margin, margin is considered the key value driver for both low and high ROIC companies within Mass, Grocery & Drug, Department Stores and Wholesale.

Globally, markets are up ~11% so far in 2024

Weighted average TSR, %, 2010 – 2024¹

As of June 30, 2024



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

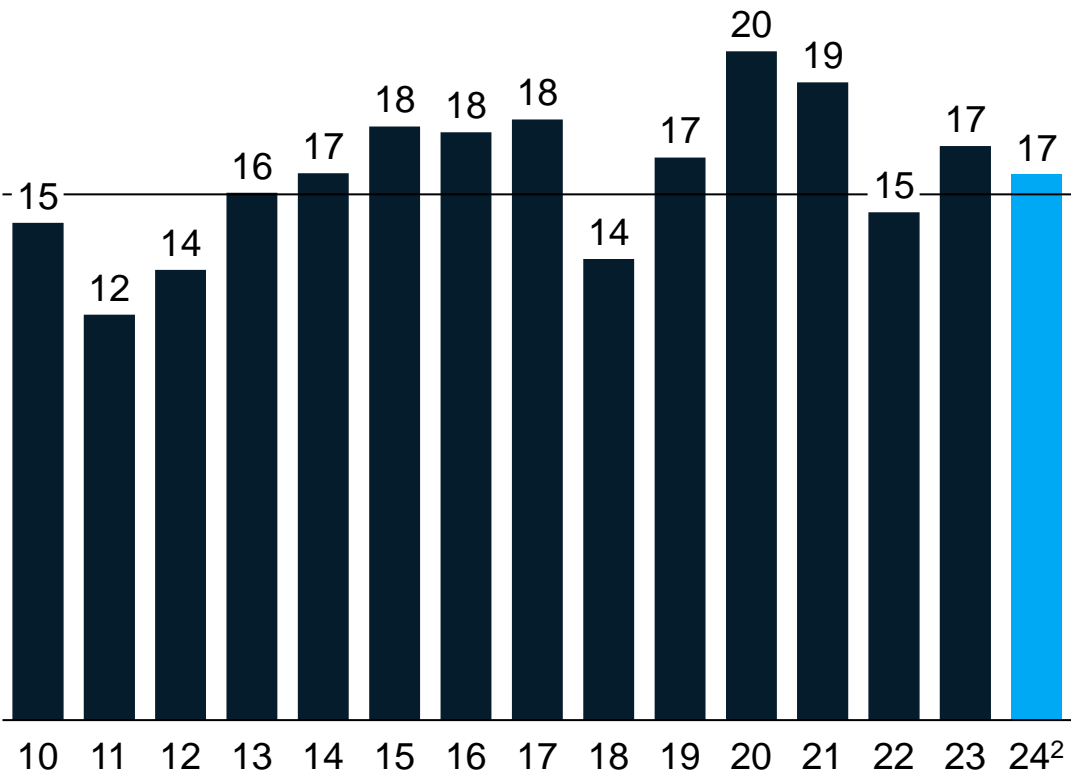
2. The data for 2024 portrays year-to-date figures

Multiples remains close to long-term averages

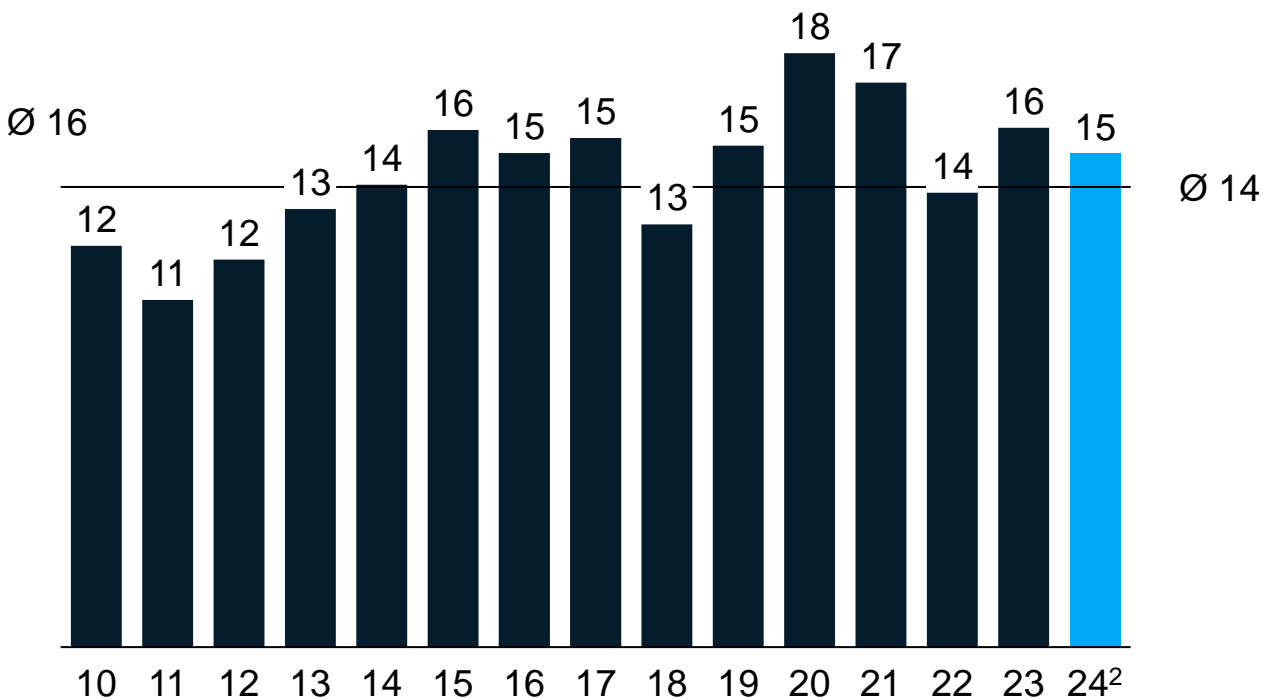
Median global forward (FY+1) market multiples, Ratios¹

As of June 30, 2024

Price-Earnings Ratio



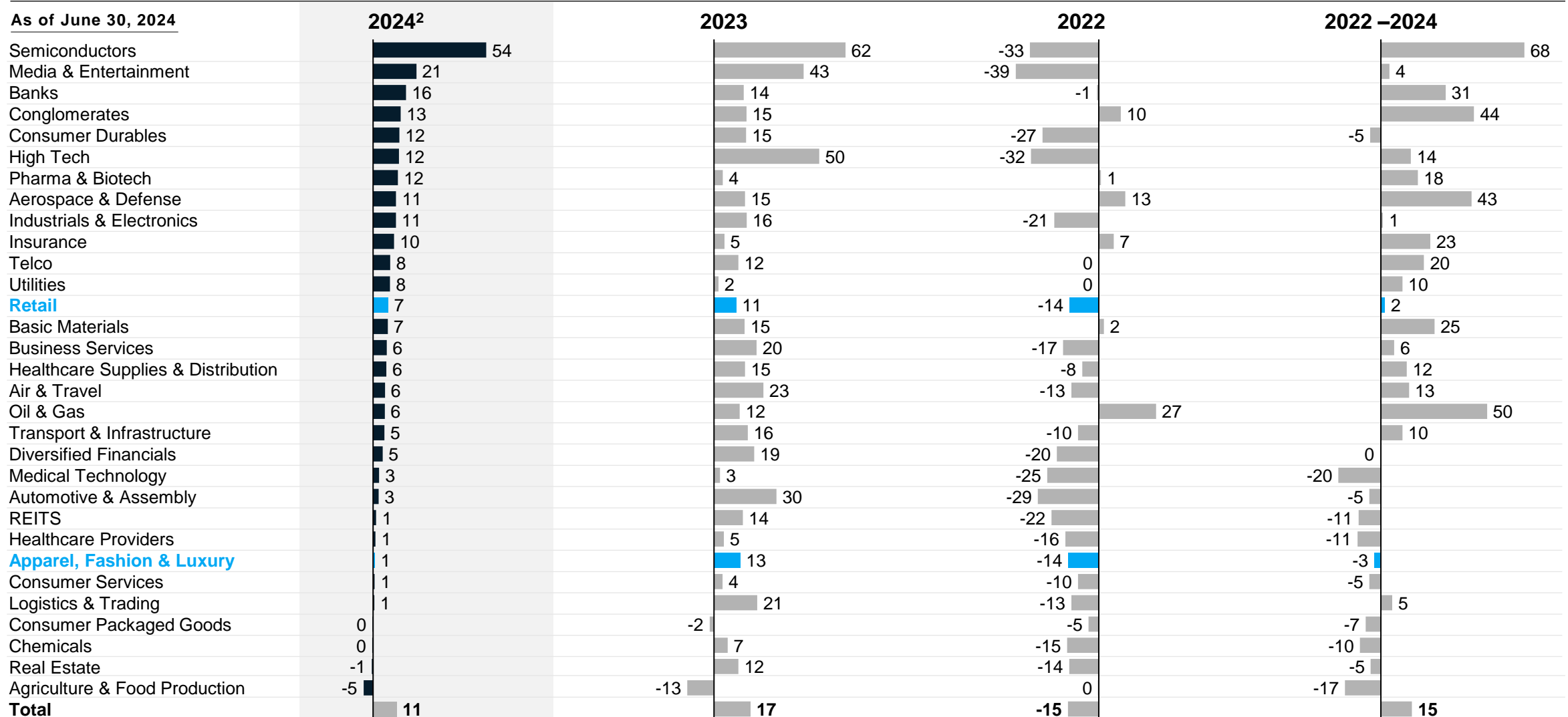
EV/EBITA Multiple³



1. Median of the top global 5,000 companies in each year by market capitalization USD
2. The data for 2024 portrays year-to-date figures
3. Excl. financial institutions

2024 performance remains positive for most sectors with Semiconductors, Media & Entertainment and Banks going strong

Weighted average industry TSR performance %¹



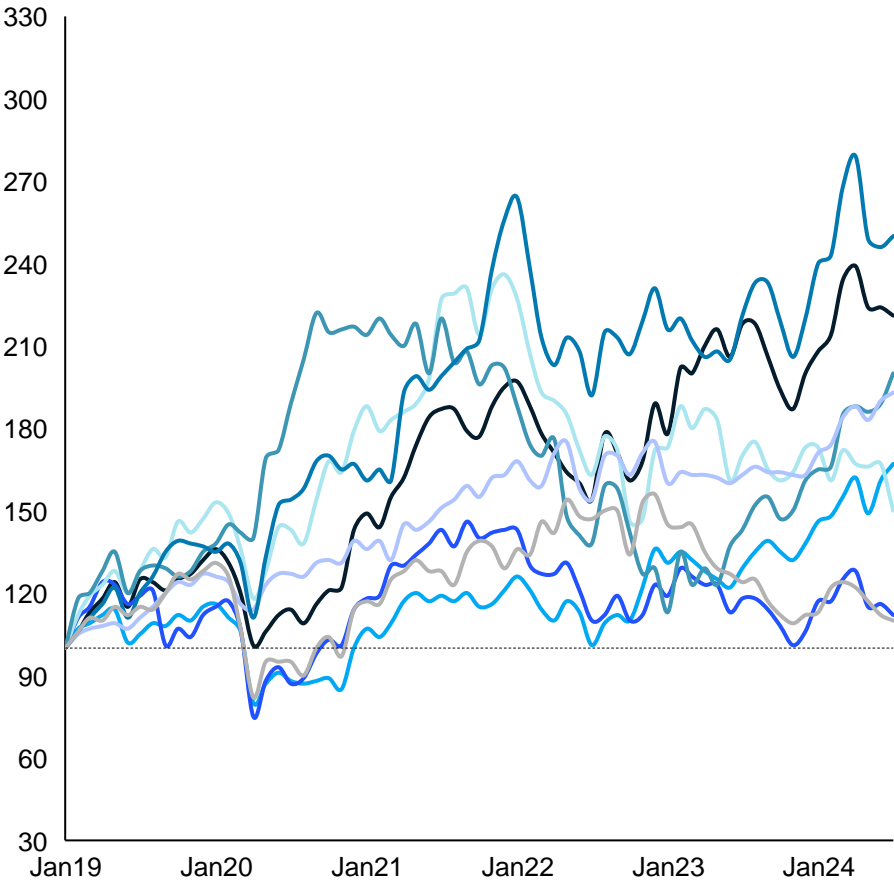
1. Based on the top 5000 companies globally by market cap as of 12/31/2023; 2. The data for 2024 portrays year-to-date figures

Globally, most subsegments recovered from 2022 downturn in 2023 and are continuing their positive trajectory in 2024

Sportswear & Sports Retail keeps struggling

Total shareholder returns (TSR) since Dec 18¹

EUR, Dec 31, 2018 =100



1. N = 350

Note: Sample may be different versus earlier pages, causing some (minor) discrepancies in numbers

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

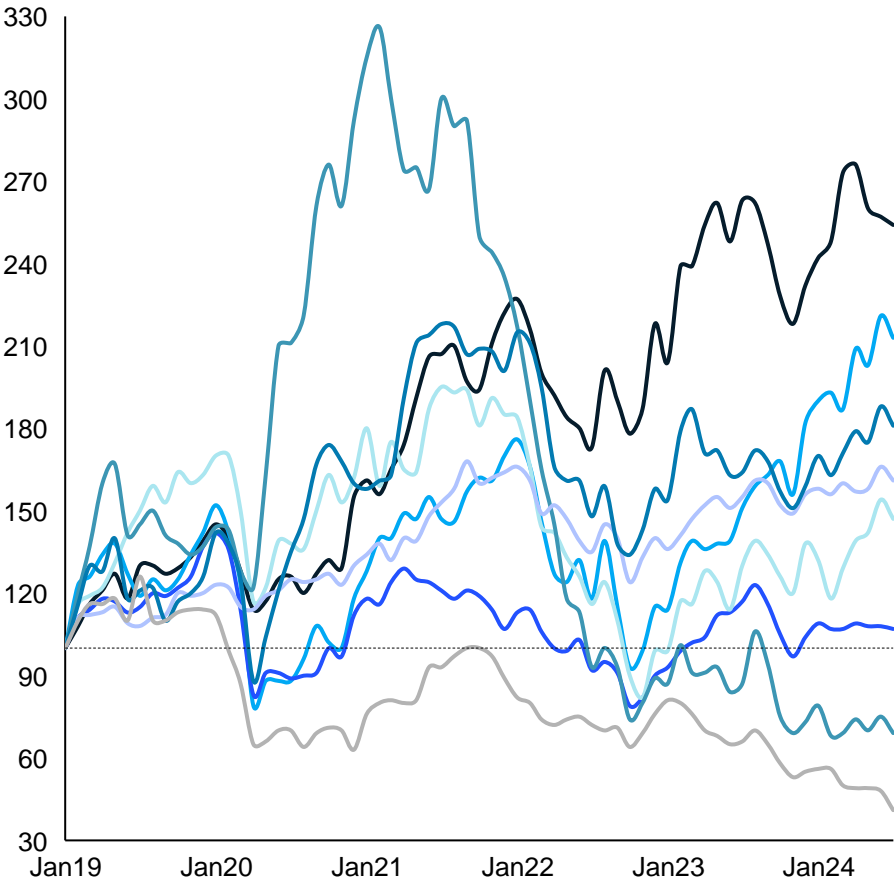
	Full period Dec 18-Jun 24 %	Pre-inflation Dec 18-Dec 21 %	2022 Dec 21-Dec 22 %	2023 Dec 22-Dec 23 %	2024 YTD Dec 23-Jun 24 %
Apparel, Fashion & Luxury Global	16	25	-10	17	6
Department Stores Global	10	8	4	12	14
Specialty Retail Global	2	13	-17	-1	-5
Sportswear & Sports Retail Global	8	31	-24	0	-13
Internet & Direct Marketing Retail Global	13	23	-40	46	22
Mass, Grocery & Drug Global	13	19	-5	7	13
Home & DIY Global	18	38	-18	11	4
Wholesale and Cash & Carry Global	2	11	6	-22	-2

In Europe, most Retail sub-sectors have relatively lower returns than in 2023 but remain positive in 2024 YTD

Internet and Wholesale keep struggling

Total shareholder returns (TSR) since Dec 18¹

EUR, Dec 31 2018 =100



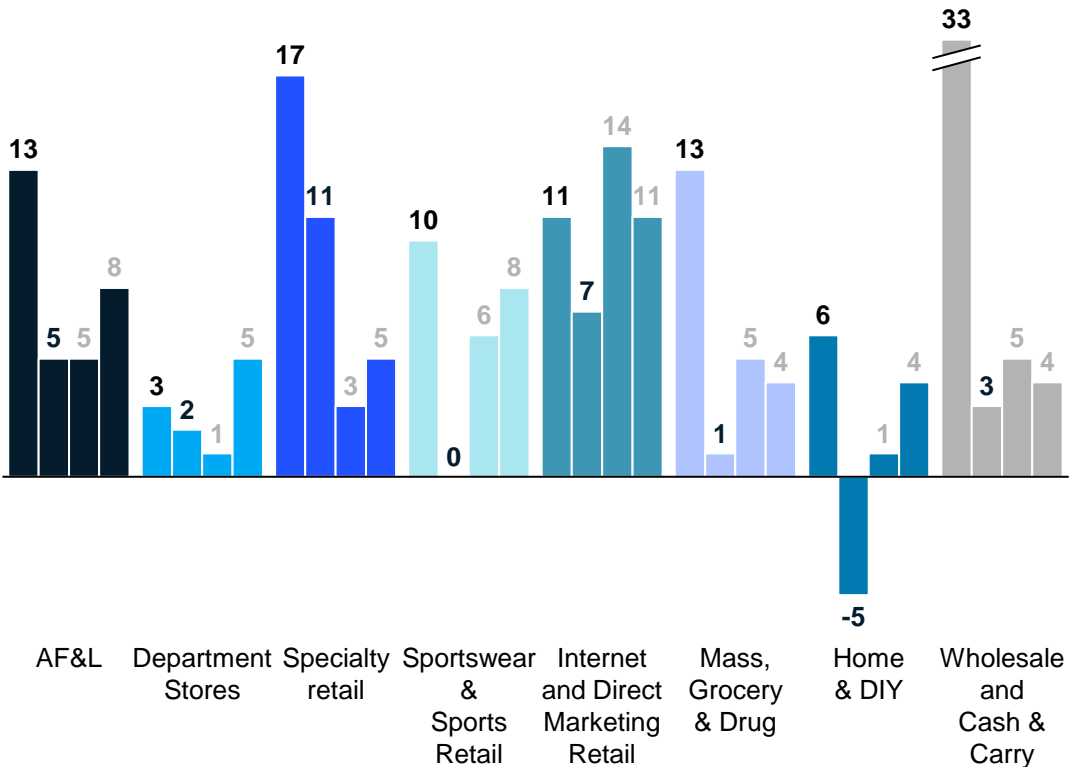
1. N = 67; 2. Only one European company, Metro AG, is in Wholesale sub-sector
Note: Sample may be different versus earlier pages, causing some (minor) discrepancies in numbers

	Full period Dec 18-Jun 24 %	Pre-inflation Dec 18-Dec 21 %	2022 Dec 21-Dec 22 %	2023 Dec 22-Dec 23 %	2024 YTD Dec 23-Jun 24 %
Apparel, Fashion & Luxury Europe	18	31	-10	18	5
Department Stores Europe	15	21	-35	67	12
Specialty Retail Europe	1	4	-18	17	-1
Sportswear & Sports Retail Europe	7	22	-46	33	11
Internet & Direct Marketing Retail Europe	-6	30	-60	-9	-13
Mass, Grocery & Drug Europe	9	18	-18	16	2
Home & DIY Europe	12	32	-31	11	8
Wholesale and Cash & Carry ² Europe	-15	-6	-1	-31	-26

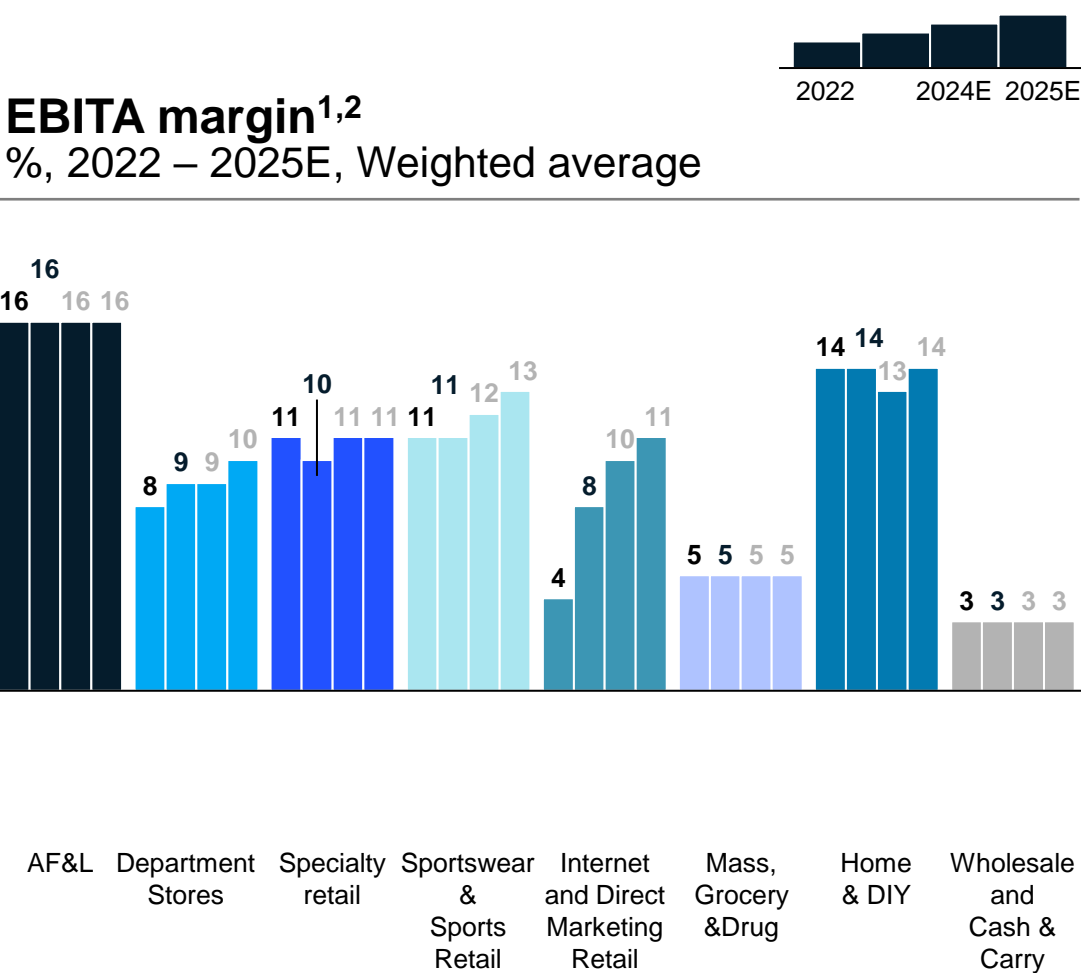
Globally, Retail revenue growth is expected to increase again in most sectors in 2024 and 2025

Despite inflationary challenges margins remained stable

Revenue growth^{1,2}
%, 2022 – 2025E, Weighted average



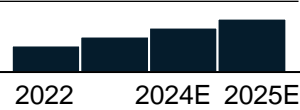
EBITA margin^{1,2}
%, 2022 – 2025E, Weighted average



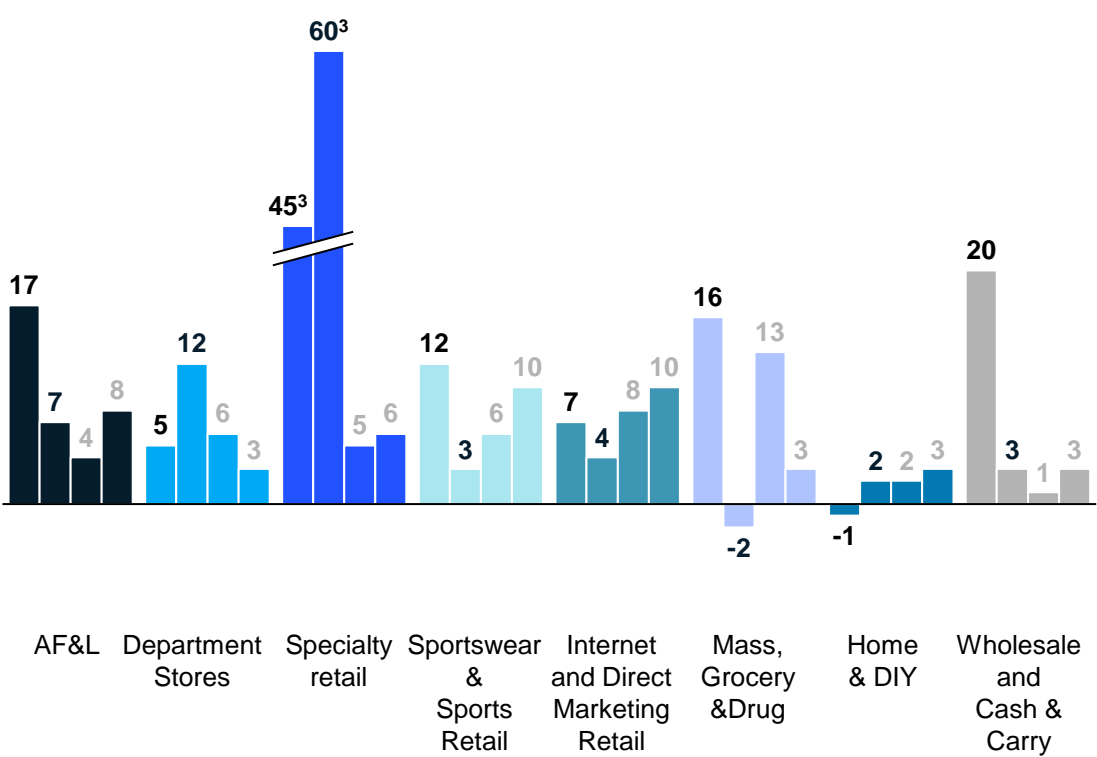
1. N = 331 (AF&L 84, Department Stores 26, Specialty retail 19, Sportswear & Sports Retail 22, Internet and Direct Marketing Retail 34, Mass, Grocery & Drug 121, Home & DIY 18, Wholesale and Cash & Carry 7); only includes companies for which a forward-looking estimate is available; 2. 2023 based on latest analyst consensus if actuals not available yet; 2024 and 2025 based on latest analyst consensus estimates

In Europe, Retail revenue growth is also expected to increase again in most sub-sectors in 2024 and 2025

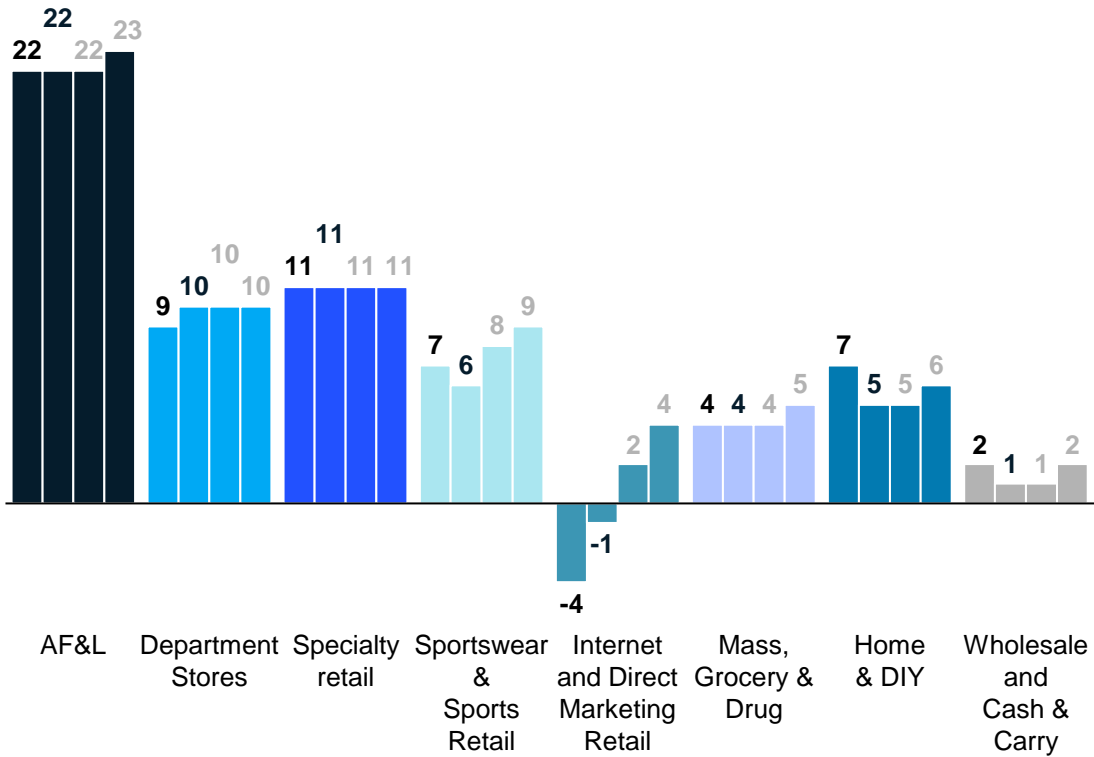
Internet Retail margins are expected to turn positive by 2024



Revenue growth^{1,2}
%, 2022 – 2025E, Weighted average



EBITA margin^{1,2}
%, 2022 – 2025E, Weighted average



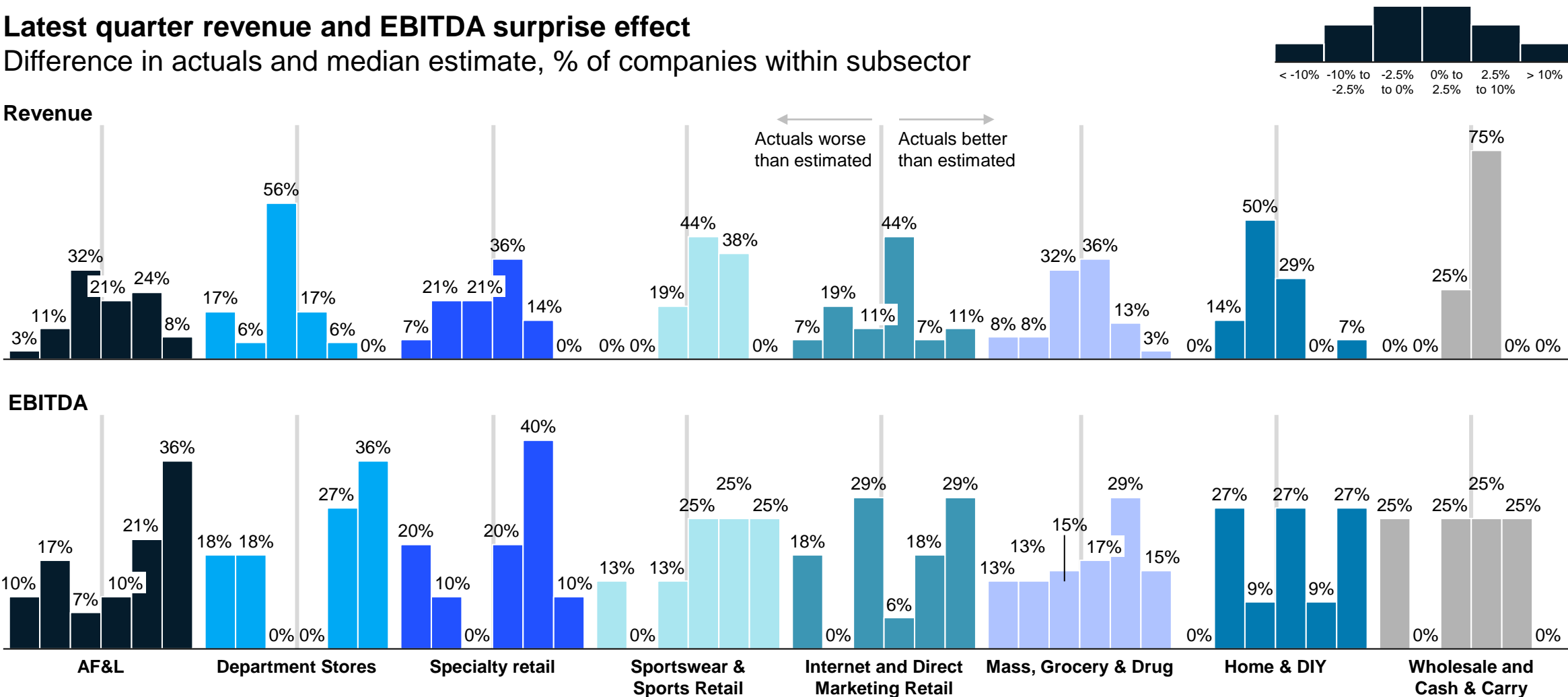
1. N = 64 (AF&L 22, Department Stores 2, Specialty retail 5, Sportswear & Sports Retail 5, Internet and Direct Marketing Retail 8, Mass, Grocery & Drug 18, Home & DIY 3, Wholesale and Cash & Carry 1); only includes companies for which a forward-looking estimate is available; 2. 2023 based on latest analyst consensus if actuals not available yet; 2024 and 2025 based on latest analyst consensus estimates; 3. Mainly driven by Avolta

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

Department Stores managed to get better EBITDA as expected, despite lower-than-expected revenues

Latest quarter revenue and EBITDA surprise effect

Difference in actuals and median estimate, % of companies within subsector



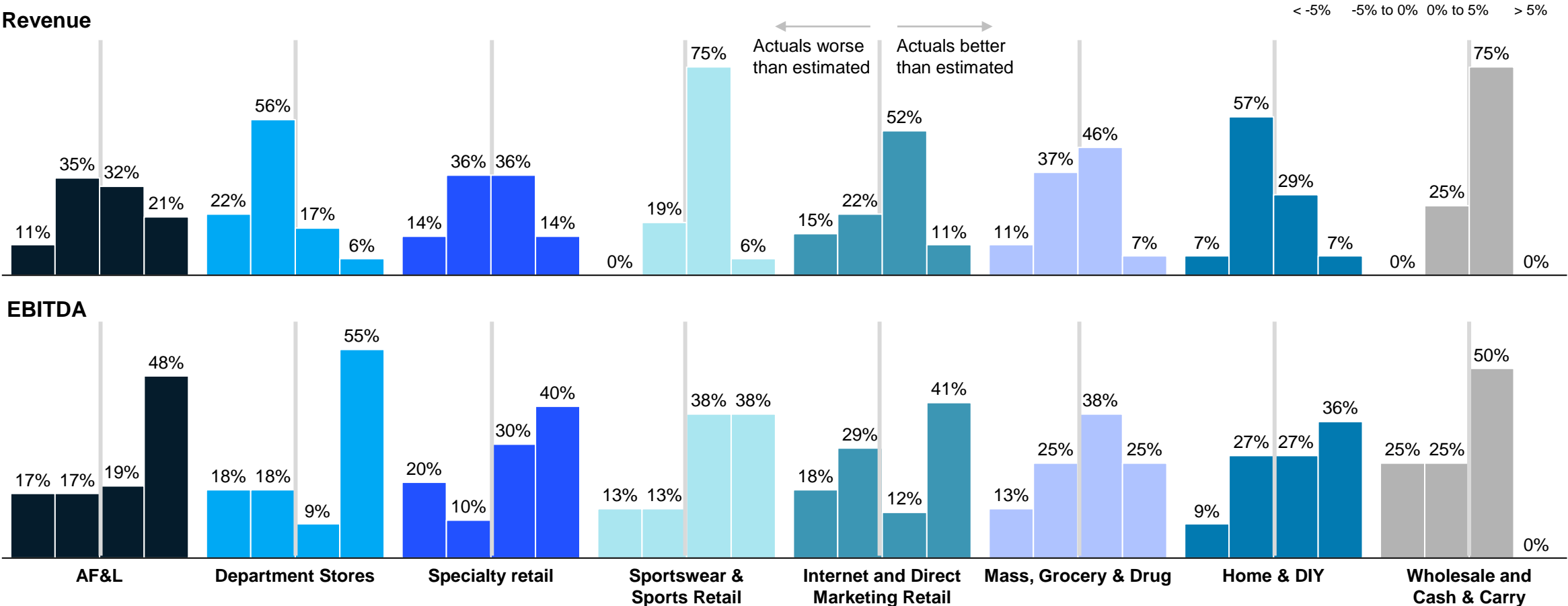
Note: Based on most recent quarterly earnings dates, ending 06/30/2024

In line with positive EBITDA surprises, forward-looking EBITDA estimates for 2024 were adjusted upwards accordingly

In Department Stores, Revenue estimates adjusted significantly downwards

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

% of companies within subsector

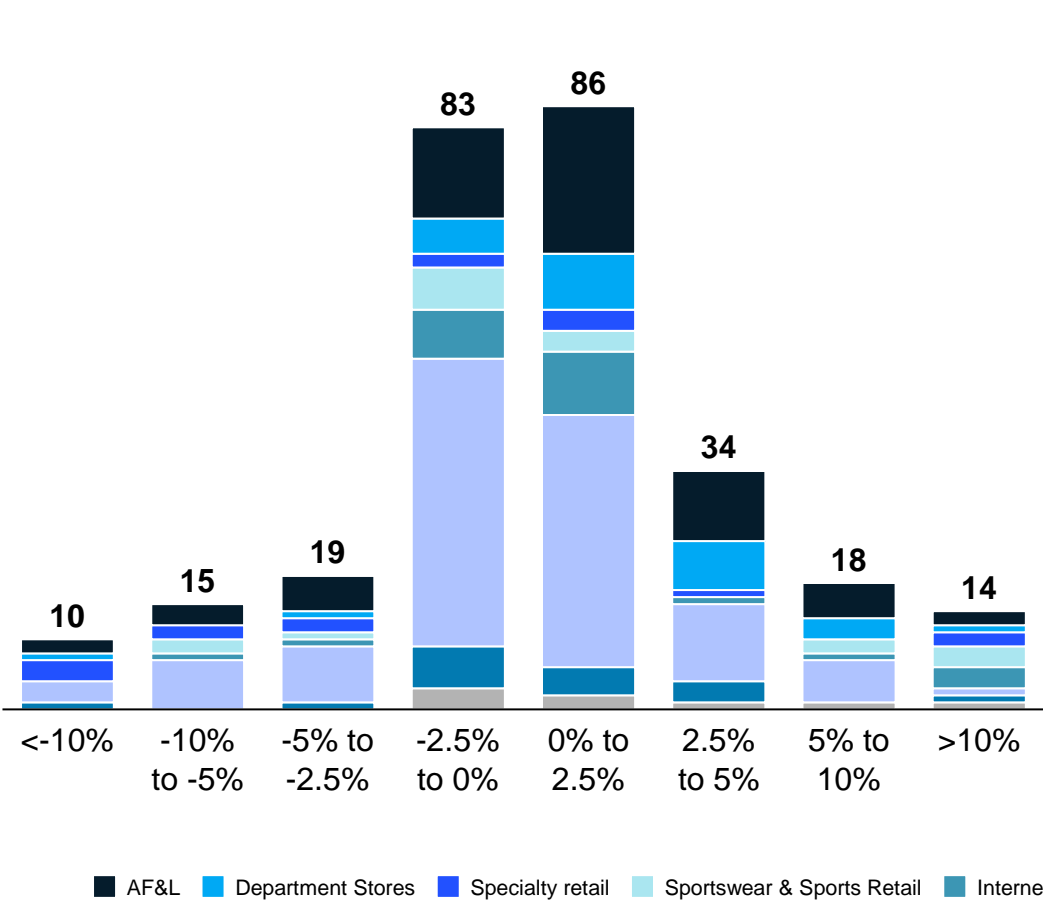


Note: Based on most recent quarterly earnings dates, ending 06/30/2024

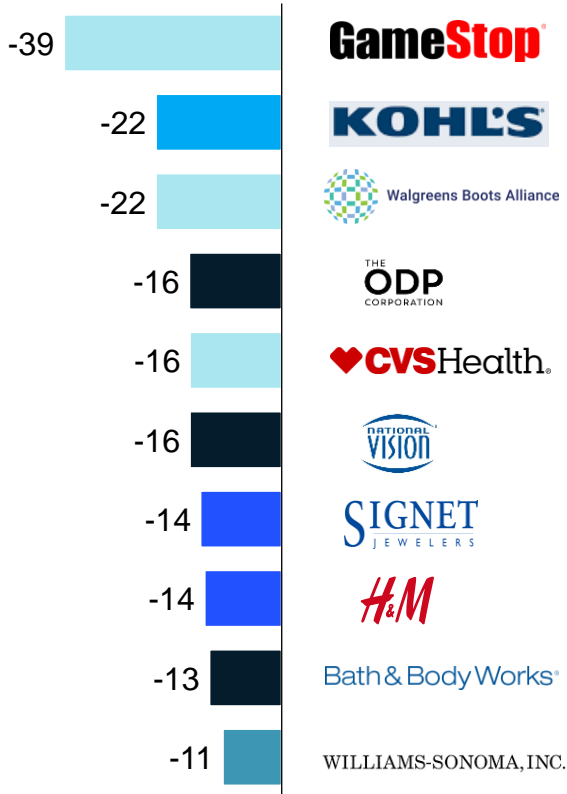
Majority of retail companies saw only minor share price adjustments after most recent earnings announcements

Some companies saw share price movements of more than +/-10% post-earnings

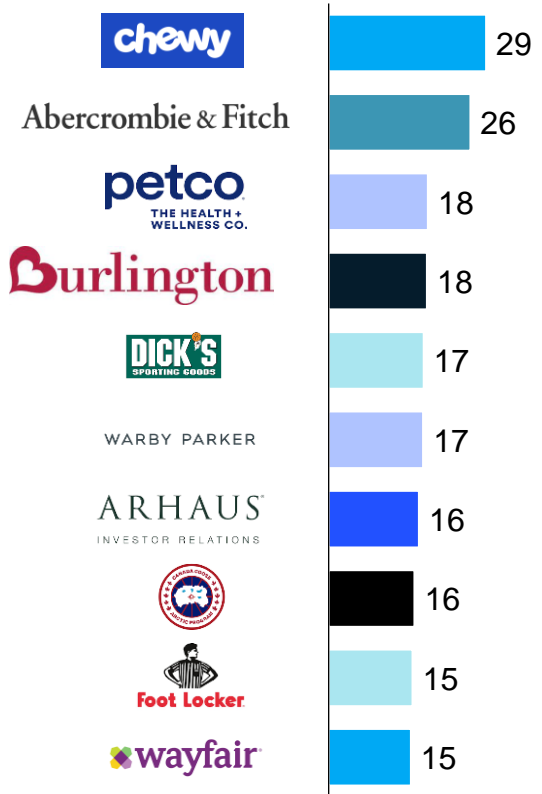
Share price delta less change in S&P 500 on day of most recent 2024 earnings announcement¹, # of companies



Largest share price dip



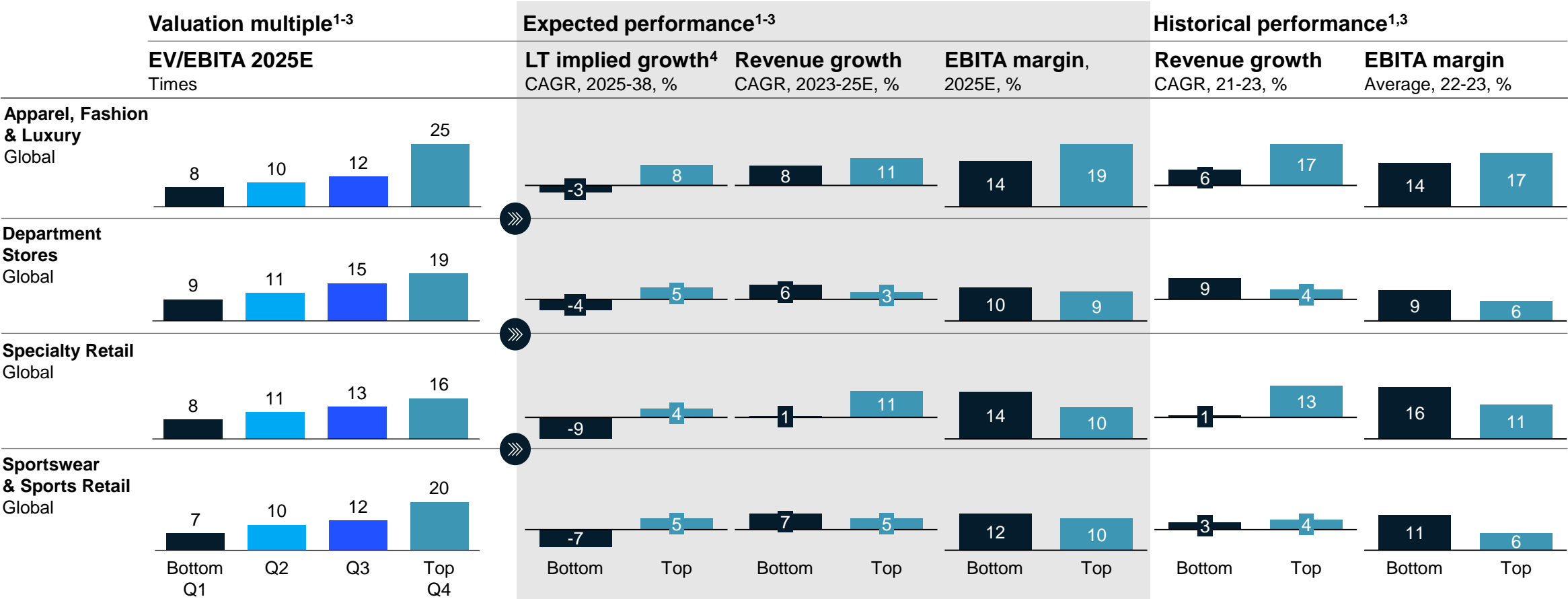
Largest share price rise



1. Based on a sample size of 279 companies and only includes companies where the latest earnings announcement was Q1 2024 or later.

High-valued Retail companies have higher long-term growth expectations, continuing their superior historical growth (1/2)

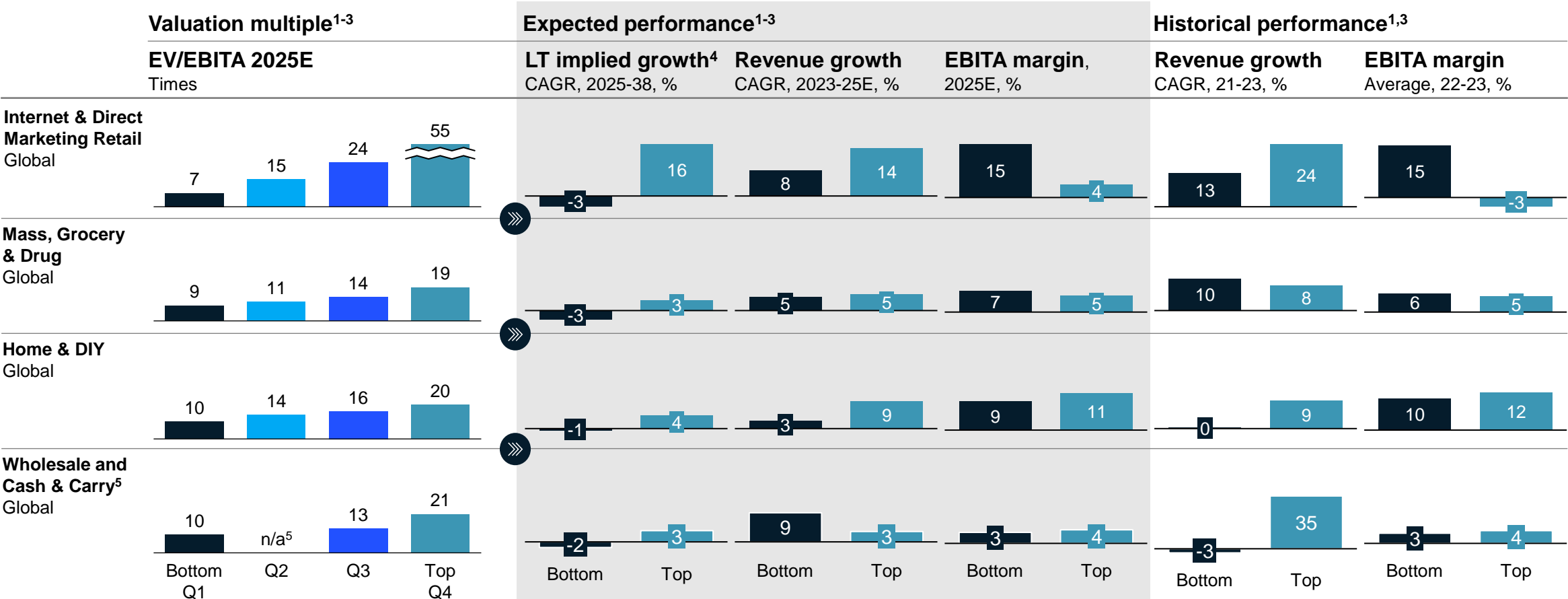
Margin picture is more diverse across sub-sectors



1. N = 280 (AF&L 74, Department Stores 21, Specialty Retail 18, Sports Retail 21, Internet Retail 19, Mass, Grocery and Drug 108, Home & DIY 16, Wholesale 3); 2. EV and analyst estimates as on June 30, 2024; 3. Medians within quartiles; Companies categorized based on EV/EBITA 2025E Multiple as of June 30, 2024; 4. Estimated using a simple DCF model by company. Revenues and margins for 2024/25 based on analyst consensus. 2026+ implied growth rate solves for June 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 after 2038, where growth is capped at 4.5%. Only includes companies for which a long-term implied growth can be calculated

High-valued Retail companies have higher long-term growth expectations, continuing their superior historical growth (2/2)

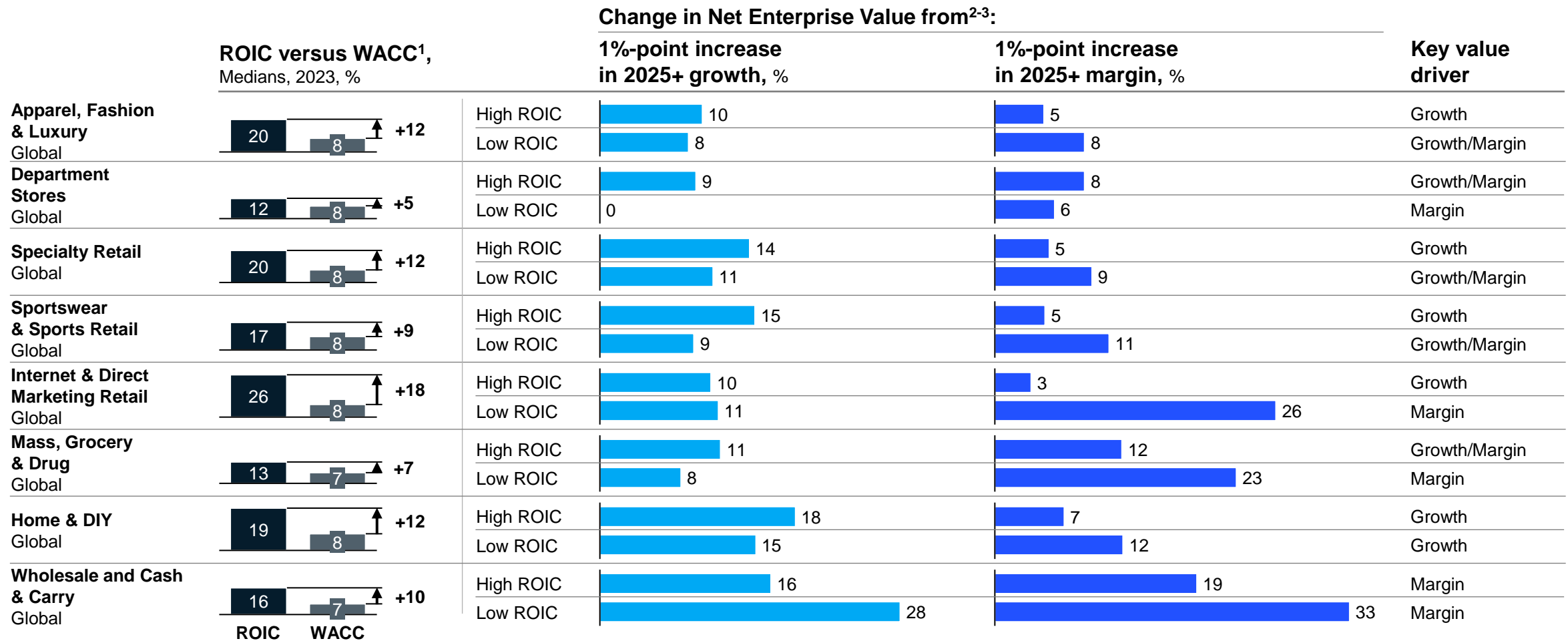
Margin picture is more diverse across sub-sectors



1. N = 280 (AF&L 74, Department Stores 21, Specialty Retail 18, Sports Retail 21, Internet Retail 19, Mass, Grocery and Drug 108, Home & DIY 16, Wholesale 3); 2. EV and analyst estimates as on June 30, 2024; 3. Medians within quartiles; Companies categorized based on EV/EBITA 2025E Multiple as of June 30, 2024; 4. Estimated using a simple DCF model by company. Revenues and margins for 2024/25 based on analyst consensus. 2026+ implied growth rate solves for June 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 after 2038, where growth is capped at 4.5%. Only includes companies for which a long-term implied growth can be calculated. 5. Only 3 companies within the sub-sector remain with enough data

Key value drivers differ across retail sub-sectors and ROIC profiles

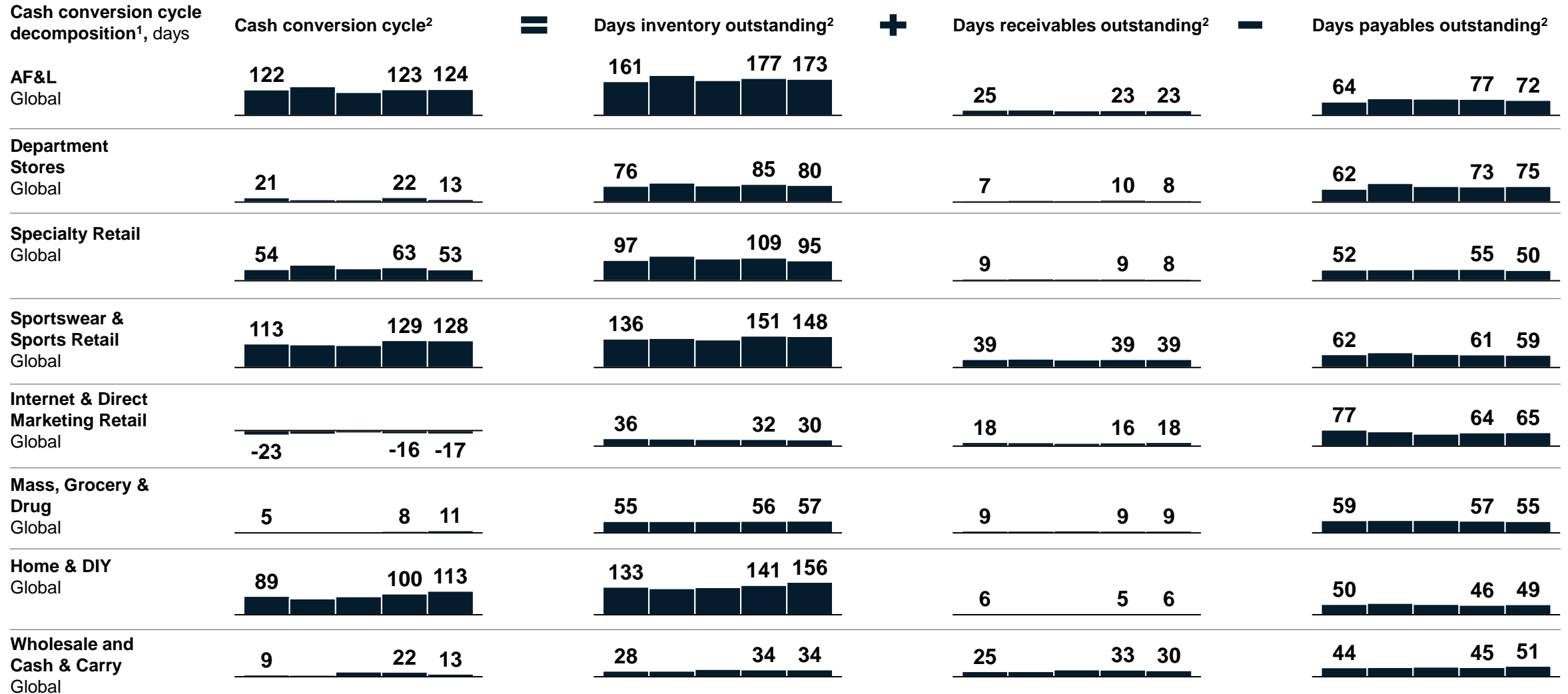
For Department, Mass and Wholesale high ROIC companies see large(st) value potential from margin



1. ROIC 2023 median versus WACC 2023 median; 2. 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; 3. Medians; Estimated using a simple DCF model by company. Revenues and margins for 2024/25 based on analyst consensus. 2025+ implied growth rate solves for June 30, 2023 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 after 2038, where growth is capped at 4.5%

Most sub-sectors improved inventory turnaround in 2023 versus difficult 2022, except for Home & DIY and Mass

Internet Retail continues to show strong cash conversion



1. N = 291 (AF&L 72, Department Stores 25, Specialty Retail 19, Sports Retail 19, Internet Retail 21, Mass, Grocery and Drug 111, Home & DIY 16, Wholesale 8); 2. Medians; CCC calculated as Median DIO + Median DRO – Median DPO

Contents

Macroeconomic context

Value creation in Retail



Spotlight perspective – Consumer sentiment update: A sunnier outlook ahead of summer?

Emerging European consumer trends in Q2 2024

1



Overall consumer mood continues to strength Q2 '24

Confidence varies by region with Germany and Italy slightly improving, France, Spain and the UK remaining steady.

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

50%

Of consumers are still very concerned about inflation

2



Consumers expect to continue reducing their spending slightly...

Consumers still report negative net intent on nearly all categories aside from Fresh Produce, Baby Supplies, and petrol

However, net intent to spend has improved since Q4 '23 across nearly all categories

Only 3

Categories have a positive net intent to spent

3



...by trading down across all categories

Almost 8 in 10 European consumers are trading down, mostly by adjusting quantities and changing retailers for a lower price or discount

Downtrading is stronger amongst younger consumers – 9 in 10 GenZs have traded down in the last 3 months

40%

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

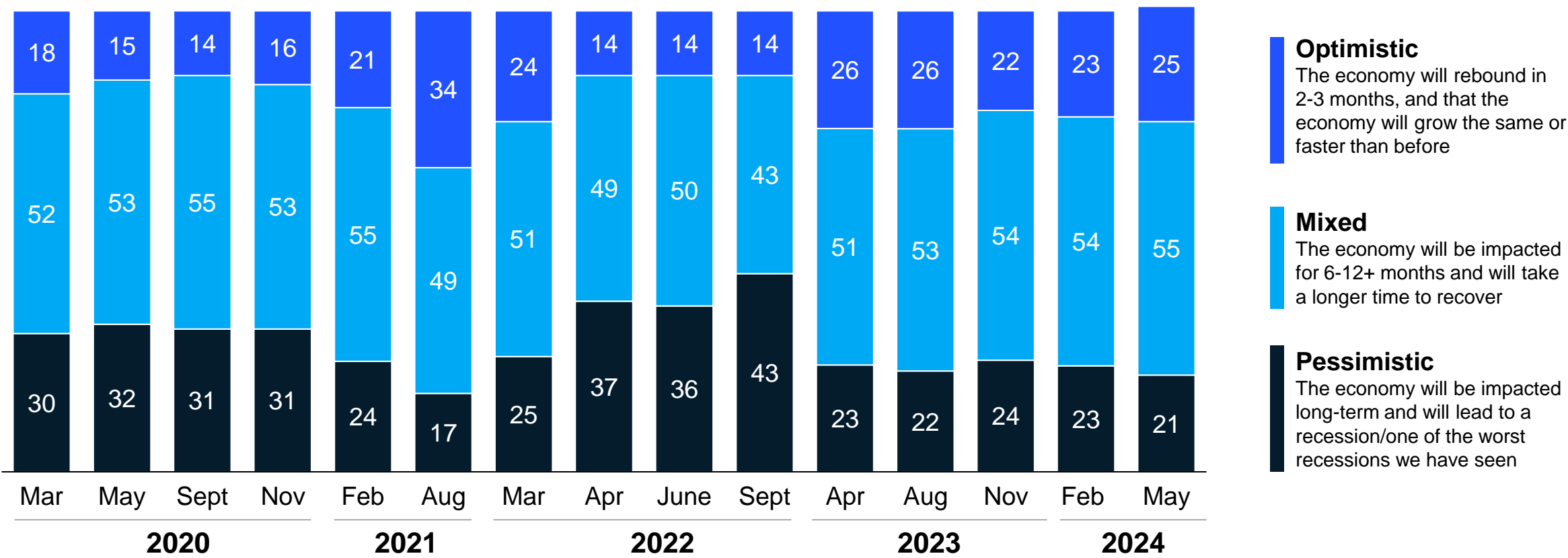
ESG importance varies slightly across markets and generations with Gen Z being most conscious

1 in 2

consumers consider ESG factors when shopping

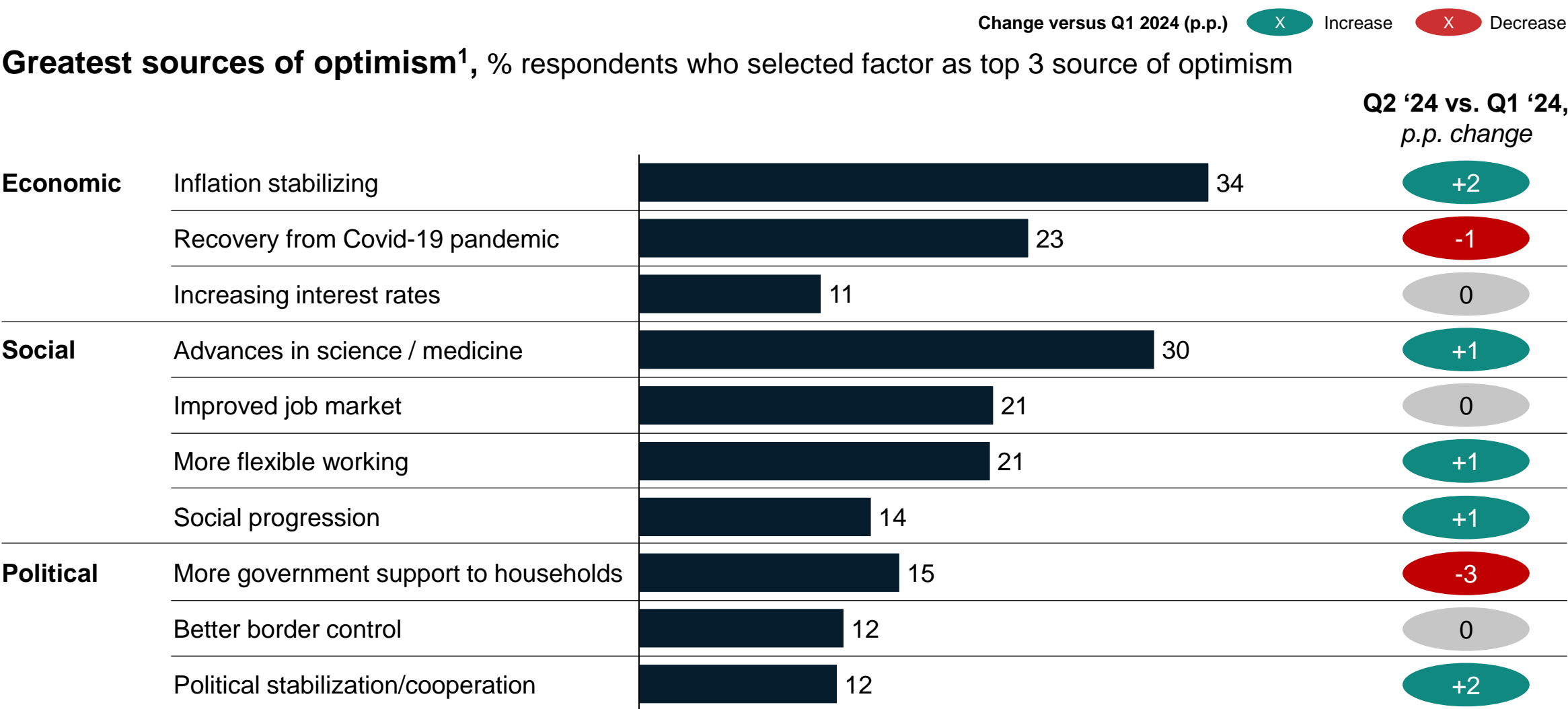
EU5 consumer optimism continues to strengthen for the 3rd quarter and has reached positive net for the first time since Q3'23

Confidence level in own country's economic conditions¹, % respondents



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)?

Inflation stabilization and political stability are the highest sources of optimism though consumers feel decline in government support

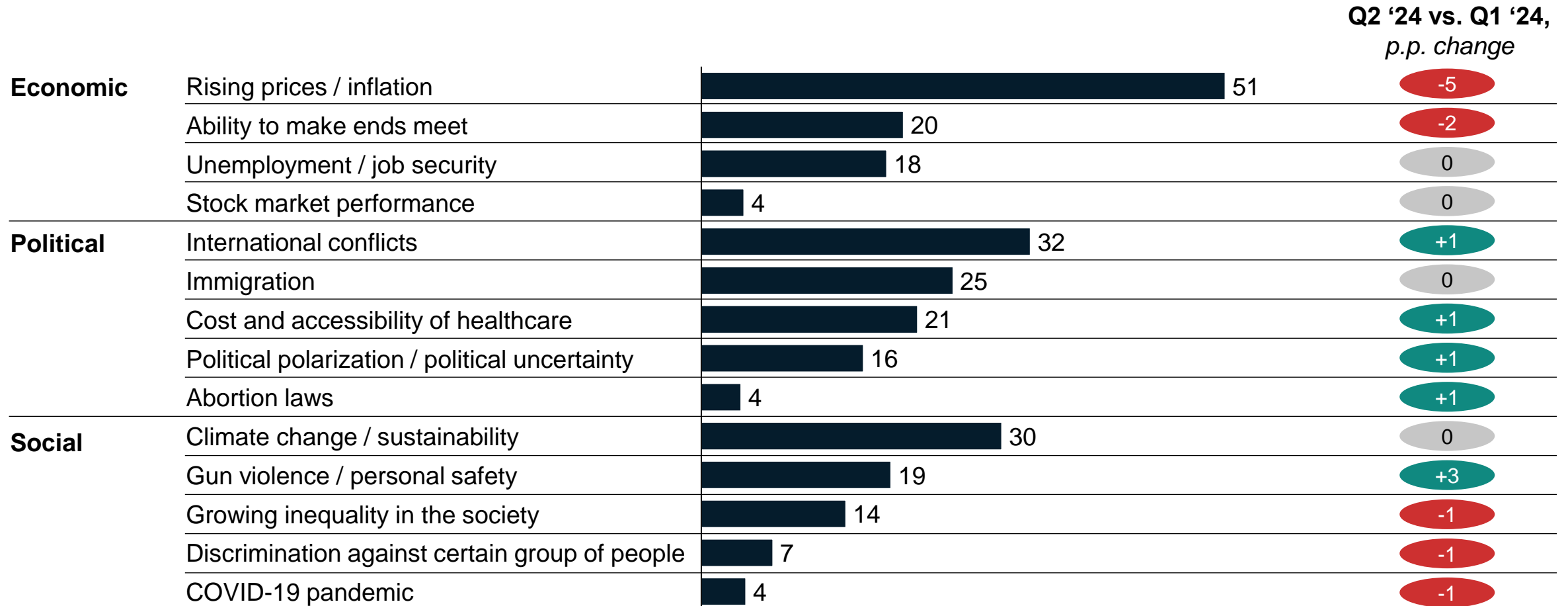


1. Q: What are the greatest source(s) of optimism for you right now? [Please select up to 3]

Despite the slow down, rising prices remain the key source of concern followed by intl. conflicts and climate change

Change versus Q1 2024 (p.p.) X Increase X Decrease

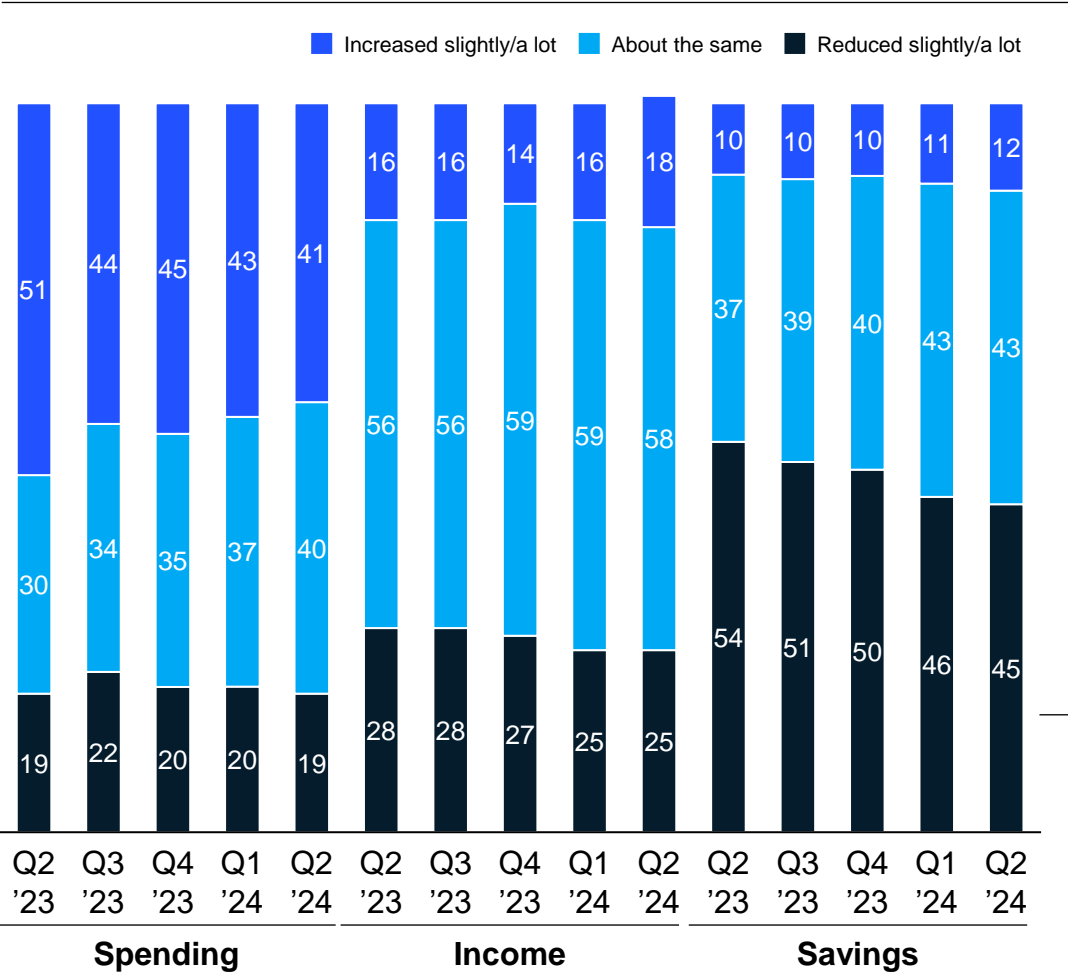
Greatest sources of concern¹, % respondents who selected factor as top 3 source of concern



1. Q: What are the greatest source(s) of concern for you right now? [Please select up to 3]

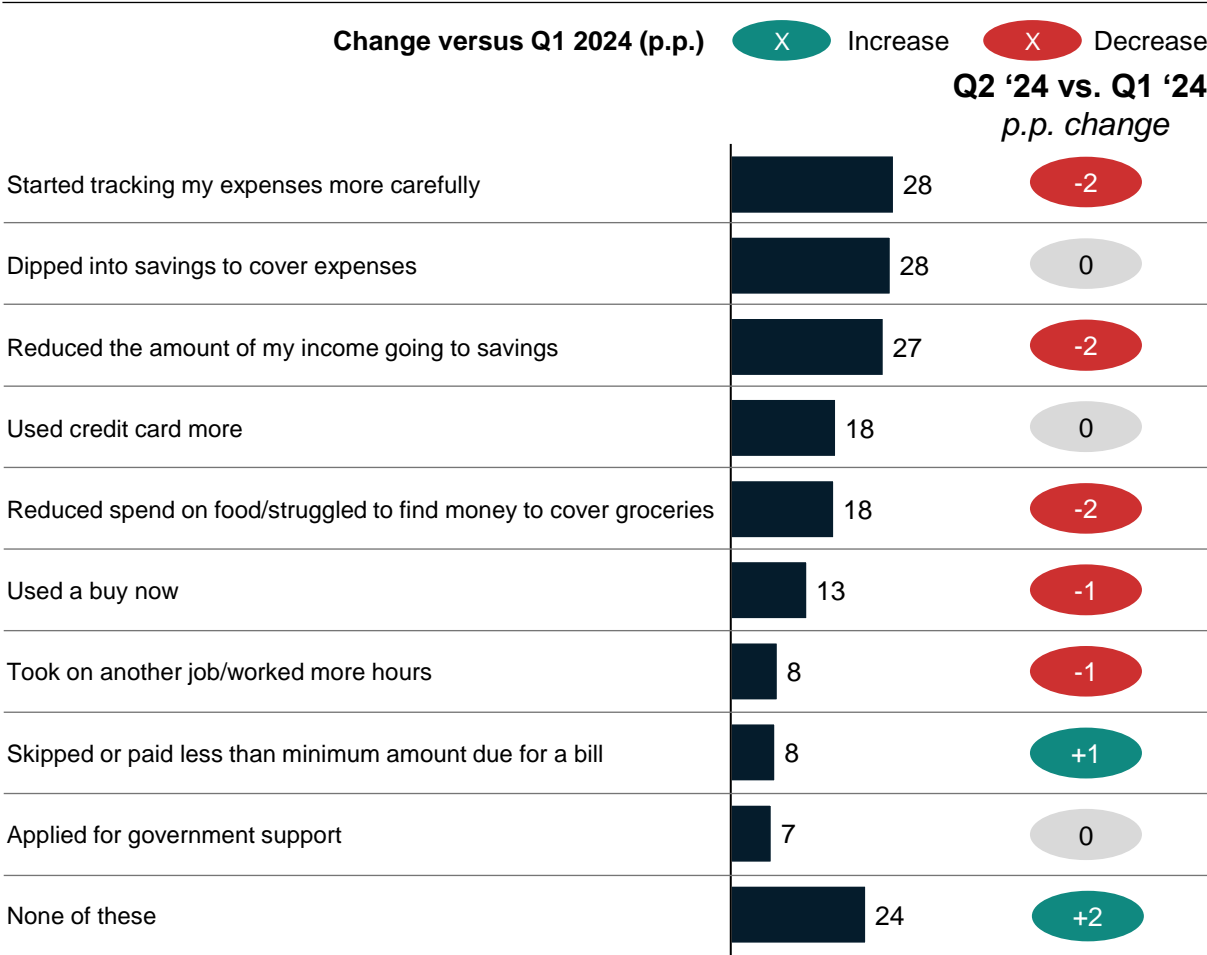
Household finances are stable with continued reduction in spending increase and saving decrease

Changes in household finances¹, % 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?

Savings measures taken², % of respondents



Consumers expect spend more on petrol, skincare, and toys, but less on baby supplies relative to Q1 '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					Net intent	Net intent, Q2 '24 vs Q1 '24
Essentials	Fresh produce	9	73	18	+9	+1
	Gasoline	15	64	21	+5	+4
	Baby supplies	17	65	18	+1	-5
	Pet food & supplies	11	80	9	-2	-1
	Center store / shelf stable groceries	13	77	10	-3	-2
	Meat & dairy	15	74	11	-4	+1
	Non-alcoholic beverages	23	70	8	-15	+2
Semi-discretionary	Personal care products	13	80	7	-5	0
	Fitness & wellness services	22	65	13	-9	+3
	Household supplies	16	76	7	-9	+1
	Vitamins, supplements, and OTC medicine	23	68	10	-13	-1
	Skincare & make-up	26	64	10	-17	+4
	Vehicles	35	50	15	-20	+3
	Toys	36	51	12	-24	+9

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?

While consumers plan to spend less on discretionary purchases, net intent is higher than last quarter in almost every category

■ 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				Net intent	Net intent, Q2 '24 vs Q1 '24	
Discretionary	International flights	29	49	22	-6	+5
	Petcare services	19	69	12	-7	+4
	Hotel / resort stays	30	50	20	-9	+7
	Cruises	32	47	21	-12	0
	Domestic flights	30	54	16	-14	+3
	Entertainment at home	21	72	7	-14	+2
	Short-term apartment or house rentals	31	55	15	-16	+6
	Personal care services	26	65	9	-16	+2
	Home improvement & gardening supplies	35	51	14	-22	+3
	Entertainment away from home	35	52	13	-22	+3
	Meal at a sit-down restaurant	36	53	12	-24	+4
	Alcoholic beverages	33	59	8	-25	+4
	Apparel	37	52	11	-26	+6
	Sports & outdoors equipment & supplies	38	52	11	-27	0
	Footwear	37	54	9	-28	+6
	Meal at quick service restaurants	40	52	8	-31	+3
	Food delivery from an app	42	47	11	-32	+1
	Decorations and products for home	46	46	8	-37	+5
	Electronics for home or personal use	47	43	10	-38	+4
	Furniture	51	36	13	-38	+1
	Jewelry	50	39	11	-39	+8
	Accessories	49	44	8	-41	+1

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 are trading down, though most prominent in Italy low income and with stronger effect seen in younger generations






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



Income






Country:	EU5	 Italy	 Spain	 France	 Germany	 UK
Low Income	79	85	82	81	77	72
Medium Income	76	80	79	76	73	70
High Income	74	78	72	74	75	71

Generation

Country:	EU5	 UK	 Germany	 Italy	 France	 Spain
Generation Z	87	83	88	86	85	91
Millennial	83	81	79	83	85	86
Generation X	74	73	70	78	73	77
Boomers and Silent	66	55	67	79	69	62

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

~ 80% of consumers are trading down, most often by adjusting purchase quantities or by changing to lower priced retailers

				Trading down behaviors,%				
				<div> <div><25</div> <div><35</div> <div><45</div> <div>>=45</div> </div>				
% of respondents changing their shopping behaviour ¹ , % respondents		% trading down ²	% not trading down	Adjusted quantity/pack size	Changed brand to lower price/private label	Changed retailers for lower price/discount	Delayed purchase	Used buy now pay later
Country	EU5	76	24	40	21	40	28	13
	 Italy	81	19	48	25	36	26	12
	 Spain	78	22	34	21	52	24	11
	 France	76	24	43	16	35	34	12
	 Germany	75	25	38	20	40	32	16
	 UK	71	29	39	22	36	24	14

1. Q: Within the past 3 months have you done any of the following when purchasing a product (asked across multiple categories)?
2. % of respondents selecting one of the options: shopped from a lower priced retailer, shopped from a lower priced brand, bought private label, bought a brand for which you had a coupon, used buy now pay later, delayed a purchase, bought a larger size pack for lower price, bought smaller size or quantity, made more shopping trips in search of a discount

Gen Z are more likely to splurge on apparel/footwear, while Gen X and Boomers expect to splurge on travel and eating out

Index vs. Total Category ■ < -3 ■ Between -3 and +3 ■ > +3

Categories where consumers intend to treat themselves¹

% of all respondents with intent to splurge, N = 1,888

		Intent to splurge by generation			
Categories		Gen Z	Millennials	Gen X	Baby boomers
Restaurants, dining out, bars	38	39	35	37	42
Travel	36	29	33	40	47
Apparel	35	46	34	28	24
Footwear	25	32	26	22	15
Beauty & personal care	22	26	23	20	14
Groceries / food for home	20	19	23	19	19
Out of home entertainment	18	21	14	20	18
Jewelry & accessories	16	23	18	12	6
Electronics for home or personal use	16	17	16	14	14
Fitness	11	15	13	8	6
Items for your home	11	11	11	10	11
Vehicles	11	12	11	10	9
Household essentials	8	11	9	7	3

1. Q: You mentioned that you plan to splurge/treat yourself over the next 3 months. Which products or services do you expect to make more expensive purchases than normal or purchase something to "treat" yourself? Please select all that apply

ESG remains important across categories, increasingly in apparel & household supplies, but decreasingly so in food compared to Q1 '24

Change versus Q1 2024 (p.p.) ■ < -3 ■ Between -3 and +3 ■ > +3

Importance of sustainability in purchasing decisions¹

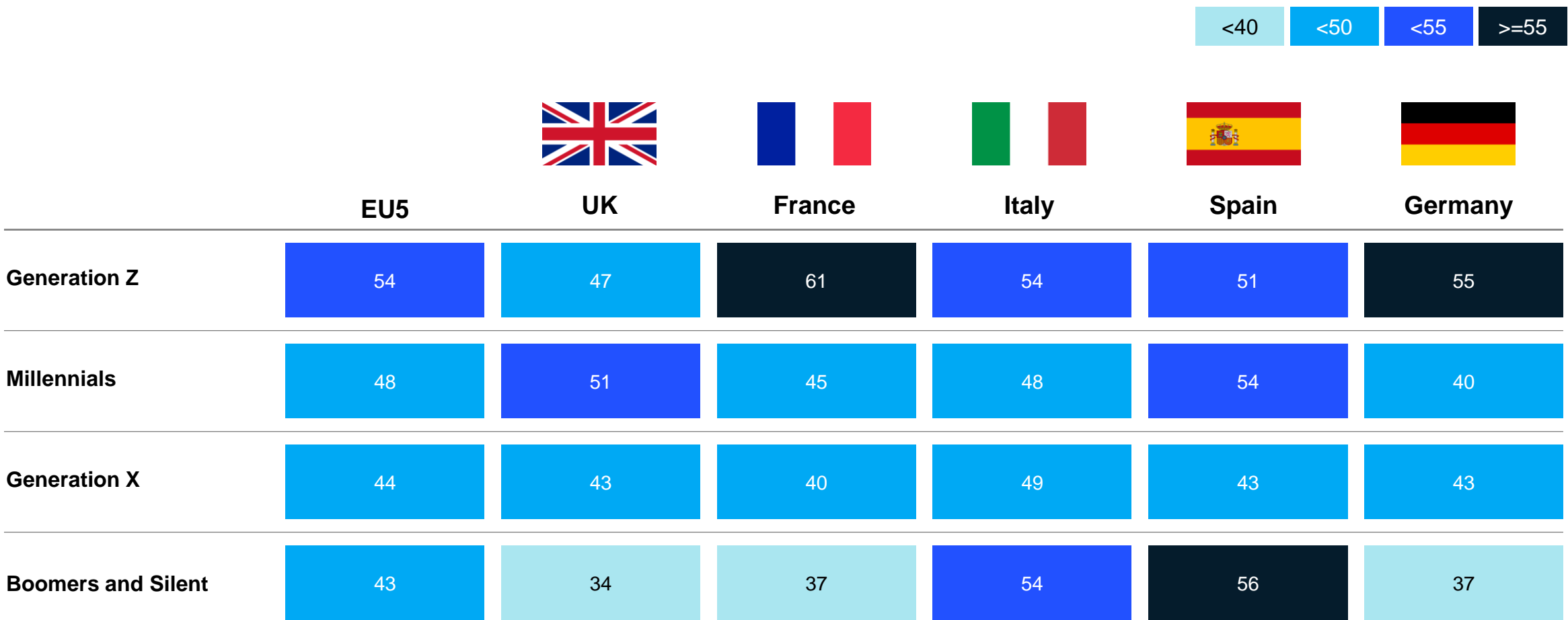
% of respondents

		Apparel		Food/Groceries		Household supplies		Personal care	
		Q2 '24 importance	Q2 '24 vs. Q1 '24	Q2 '24 importance	Q2 '24 vs. Q1 '24	Q2 '24 importance	Q2 '24 vs. Q1 '24	Q2 '24 importance	Q2 '24 vs. Q1 '24
Authenticity	Companies that are transparent in what they make and do	55	0	55	-1	56	3	52	-2
	Companies that put its people before profits	53	3	52	0	51	2	47	-2
	Locally owned companies	44	2	48	-1	46	2	44	2
	Companies that provide adequate work-life balances to employees	46	1	45	-1	47	2	44	-1
	Companies that take a strong stance on social issues	43	3	41	2	40	1	40	-1
	Companies who stand behind the athletes (or other celebrities) they endorse	24	3	20	-1	23	2	20	1
Sustainability	Recyclable products, packaging, or initiatives	55	4	56	-2	54	-3	55	-1
	Producing goods with less packaging	53	0	54	-4	55	-3	54	-3
	Fair trade practices	53	1	53	-3	54	2	51	-3
	Sustainably sourced materials	54	2	51	-5	53	-1	53	-1
	No artificial ingredients / Natural / GMO-free	48	3	57	0	51	0	54	-1
	Small or neutral carbon footprint	46	1	45	-2	46	-4	45	-4
	Organic	39	1	43	1	40	-1	43	0
DEI	Gender equity stance or workplace	40	1	39	0	40	2	40	1
	Companies that have an inclusive environment	35	1	34	1	38	3	34	0
	Companies that have a diverse management team	27	1	25	-1	28	1	27	1
	Minority-owned businesses	24	3	23	-1	25	4	23	1
	Black-owned businesses	21	2	22	0	23	2	20	0

1. Q: When buying [category] how important to your purchase decision are any of the following factors when choosing which product or brand to purchase?

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

Importance of ESG¹, % of respondents indicating ‘very important’ for at least 1 ESG statement



1. Q: When buying [category] how important to your purchase decision are any of the following factors when choosing which product or brand to purchase?

Resulting trends that will likely shape the grocery industry in 2024



**Cost and margin
pressure**



**Return of
polarization**



**Food to go:
A wrestling match for
share of stomach**



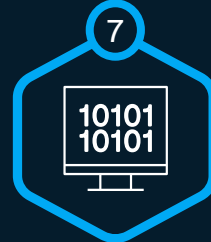
**Sustainability:
Progress made, still a
long way to go**



**Online:
Liberation from offline**



**Retail Media:
Click here to boost the
bottom line**



**Conversational commerce:
The next wave of analytics**



**Talent:
Making retail a
career again**

Margin pressure and downtrading also are top of mind for CEOs

■ Top 1-3 trends ■ Top 4-7 trends ↑ ↓ Increase/ decrease of ranks compared to last year's survey

Top 15 trends mentioned by CEOs for the grocery industry in 2024¹, n=33

Cost and margin pressure	70%	15%	85%	=	0
Downtrading of customers	61%	18%	79%	=	0
Talent hiring and development	15%	33%	48%	↑	9
Private label	15%	24%	39%	↓	-1
Ready-to-eat, ready-to-heat, ready-to-cook	18%	18%	36%	↑	12
Advanced analytics and AI	9%	24%	33%	↑	4
Store network expansion	3%	30%	33%		n/a
Product sustainability	3%	30%	33%	↓	-4
IT modernization	24%	6%	30%	=	0
Supply chain disruption and availability	15%	12%	27%	↓	-5
Government regulations	6%	18%	24%	↑	7
Product innovation	3%	18%	21%		n/a
Shift toward discounters	9%	9%	18%	↓	-5
Increased investments	6%	12%	18%	↓	-3
Loyalty programs		18%	18%	↑	8

1. Q: Looking to the near future, what do you think will be the "top of mind" focus areas that will shape the grocery retail industry in the next 1 to 3 years?

Implications for grocers: rigorous pursuit of opportunities to build new sources of competitive advantage



Future-proof the assortment

- **Balance affordability with value-adding products**
- Continue building a **strong private label and discounter** offering
- **Expand healthy, food-to-go and ready-to-(h)eat** assortment



Drive non-trivial efficiency savings

- **End-to-end supply chain optimization** from supplier to store
- **Operating model redesign, rent re-negotiation, and design-to-value** for private label assortment



Monetize retail media

- **“Think like ad agencies”** – secure leadership commitment, RM business autonomy and dedicated sales resources
- To remain relevant to advertisers, **improve standardization and impact measurements**

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