

Upcoming Events

August:

25/08: Energy Price Cap revision

25/08: GfK Consumer Confidence

September:

12/09: UK Labour Market Overview

21/09: BoE Interest Rate Update

20/09: ONS August Inflation Data

22/09: ONS August Retail Sales Data

25 August 2023

# Mixed messages

The UK consumer faced mixed messages in the last month. Record pay-growth and a moderation in CPI, driven by Ofgem’s revised energy price cap, delivered real wage growth for the first time since Oct 21. However, persistent double-digit food price inflation, rising interest rates and signs of a softer jobs market are likely to weigh on near term sentiment. UK corporates have reported trading largely in line with expectations, but outlook statements remain cautious.

**Retail sales** volumes fell sharply in July, impacted by one of the wettest July’s on record, as well as high inflation and rising interest rates. The ONS reported a 3.4% YOY decline in sales volumes (ex. fuel) in July, an acceleration on the 0.9% YOY decline recorded in June and worse than the market had forecast. According to Met Office data, it was the wettest July since 2009, and the sixth wettest July on record since 1863, impacting both footfall and demand for summer products. The divergence between retail volume and retail value continues to remain stark, with the value of retail sales increasing 4.4% YOY despite the reported 3.4% decline in sales volumes. Compared to pre-covid levels of February 2020, total retail sales were 16.4% higher in value terms, despite volumes being 1.8% lower, illustrating the impact of record inflation over the past 18 months.

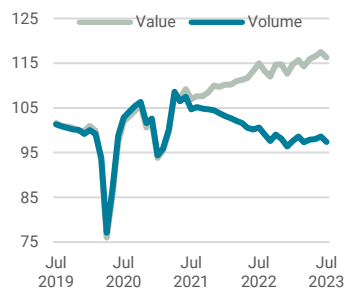
**Online sales** rose, attributed to shoppers avoiding the poor weather, as well as an increase in online sales promotions, most notably Amazon’s Prime Day which took place on 11-12 July. Online sales contributed 27.4% of retail sales in July, up from 26.0% in June and the highest proportion since February 2022 (28.0% of retail sales). Online sales mix has trended down from the highs of January 2021 (37.8% of retail sales) as lockdown restrictions fell away, and consumer behaviour normalised. However, the proportion of retail sales made online remains significantly above the pre-covid levels of February 2020 (19.6% retail sales) reflecting the long-term structural shift toward e-commerce.

**UK CPI** rose by 6.8% YOY in July 2023, down from 7.9% in June and the lowest inflation print since February 2022, according to data published by the ONS. Lower gas and electricity costs provided the largest downward contribution; annual inflation rates for gas and electricity fell from 36.2% to 1.7% and 17.3% to 6.7%, respectively, between June and July 2023 because of the lowering of Ofgem price cap which fell from £2,500 Apr-June 2023 to £2,074 for Jul-Sep 2023. A further drop in the energy price cap is expected from October (to be announced on 25 August). Food price inflation remains high, at 14.9% in July, albeit lower than the 17.4% inflation reported in June, and trending down from the 19.2% inflation reported in March 2023, the highest annual rate for 45 years. Further falls in overall inflation are forecast over the rest of 2023, largely due to lower energy prices with expectations that CPI will have fallen to 5.0% by the final quarter of this year.

**Consumer confidence** will be in focus this Friday when GfK releases its latest index. Confidence levels fell sharply in July, down six points month-on-month to minus 30, the first decline in confidence since January 2023 following a period of unexpected resilience. Persistent high inflation and consensus expectations for further interest rate hikes through September and November are likely to weigh on sentiment in the near term. Analysts are currently forecasting the UK base rate will peak at 5.75% in early 2024.

**UK Unemployment** rate for April to June increased by 0.3% to 4.2%. Job vacancies continue to decline, falling by 66,000 on the quarter (May – July) to 1,020,000, the 13th consecutive reported decline. Annual growth in regular pay (excluding bonuses) was 7.8% in April to June 2023, this is the highest regular annual growth rate seen since comparable records began in 2001. Record pay growth combined with a moderation in inflation resulted in the first real (inflation adjusted) pay growth since October 2021.

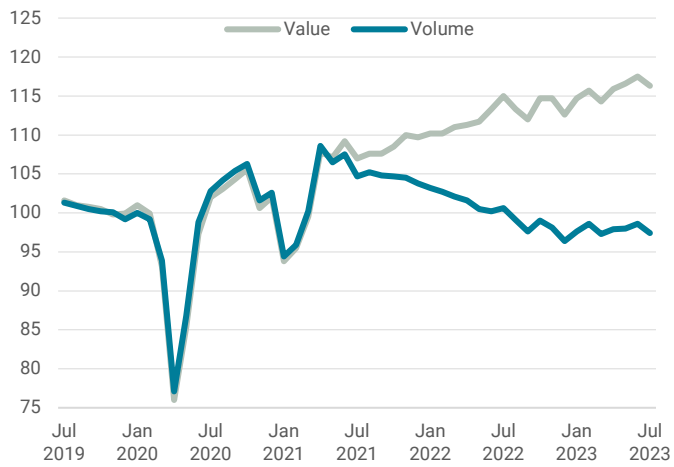
Chart of the moment  
Retail volumes vs. value



Source: ONS

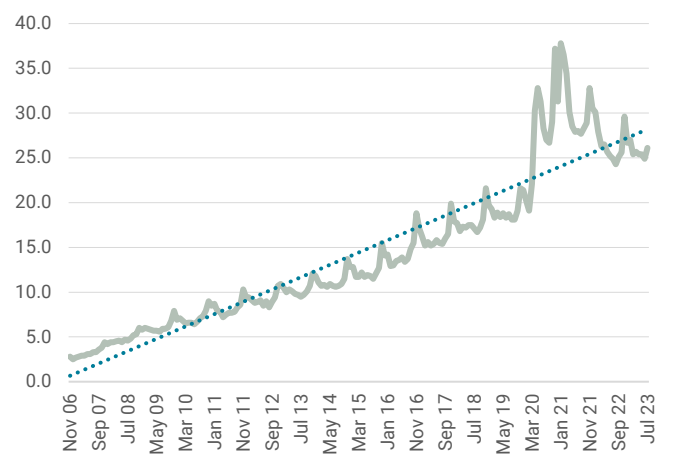
## Charts

**Exhibit 1: Retail sales volume vs. value**



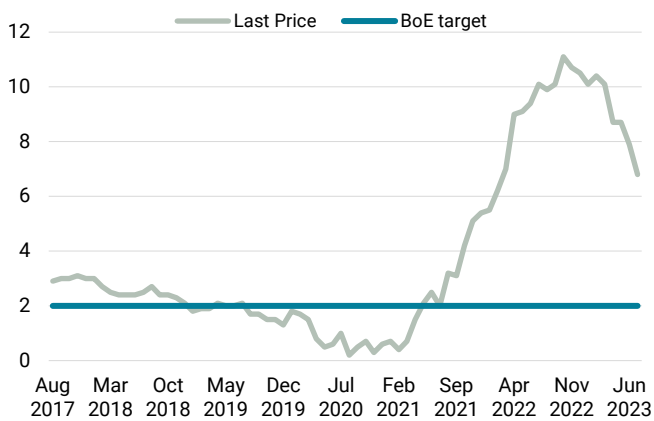
Source: ONS

**Exhibit 2: Online sales as % of retail sales**



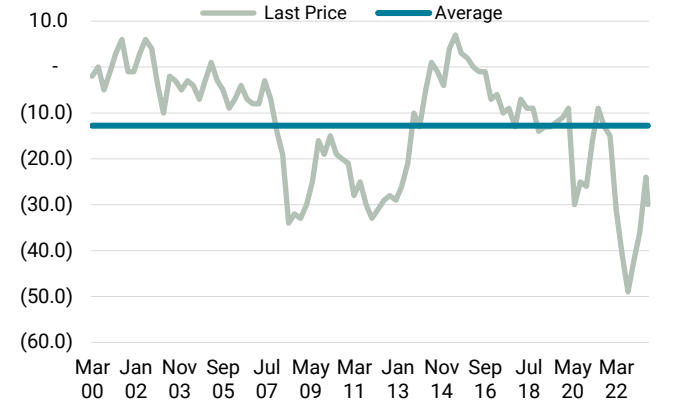
Source: ONS

**Exhibit 3: UK CPI**



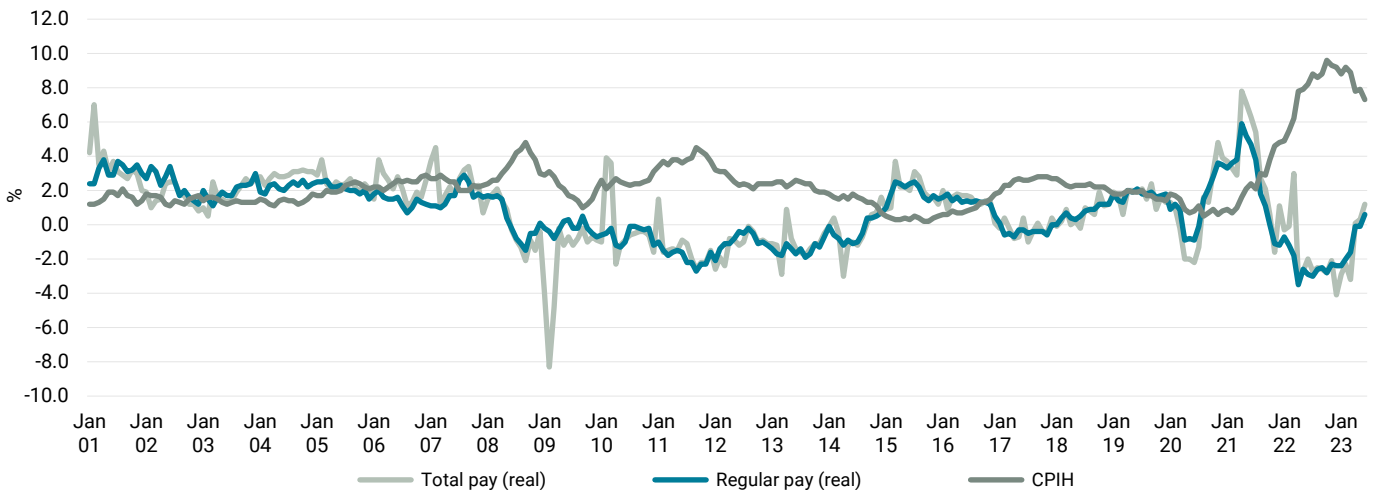
Source: ONS, Bloomberg

**Exhibit 4: Consumer confidence**



Source: GfK, Bloomberg

**Exhibit 5: Return of real wage growth**



Source: ONS

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## RNS

Several corporates have issued trading updates in recent weeks, overall confirming resilient trading over the past six months. Outlooks are broadly unchanged, albeit sounding a cautious tone for the balance of the year.

**Intercontinental Hotels Group (IHG LN)** reported strong [interim trading](#) (10 August) in the six months to 30 June, driven by increased demand. Revenue per available room (RevPAR) was +24% YOY with average daily room rates +7% YOY (+11% vs. pre-covid 2019 levels). Occupancy was +9ppts YOY and just 1.3ppts lower than pre-covid levels of 2019. FY24 guidance remains unchanged, with a return to more normalised growth expected in the balance of the financial year against softer comparatives. Guidance does not reflect any expectation of an improvement in consumer confidence in the remainder of the financial year.

Share price: 5,938p, Market Cap: £9,940m, EV/Sales: 7.0x, EV/EBITDA: 13.9x, PE: 21.2x, Yield: 2.1%

**Next Plc (NXT LN)** – announced a [trading statement](#) (3 August) confirming a better than expected Q2 sales and profit performance, its second upgrade in as many months following an unscheduled trading statement released on 19 June. Full price sales +3.7% versus expectations of +0.5%, with strong trading through the end of season sale and clearance rates ahead of expectations. H2 full price sales guidance was unchanged at +0.5% YOY, which implies full price sales for the full year will be up +1.8%. Full year Adj. PBT guidance was raised +£10m to £845m driven by the strong end to Q2. Results for the first half of the year will be announced on Thursday 21 September 2023.

Share price: 6,792p, Market Cap: £8,612m, EV/Sales: 1.9x, EV/EBITDA: 9.0x, PE: 12.5x, Yield: 3.0%

**JD Sports (JD/ LN)** announced (8 August) a conditional agreement to [acquire](#) the outstanding 40% minority stake of Marketing Investment Group S.A from its minority shareholders and will become the 100% sole owner. JD originally acquired a 60% stake in Poland-based MIG in April 2021, and since then has established the JD fascia in five countries across Central and Eastern Europe operating 18 JD stores. MIG also continues to trade profitably through Sizeer and other complementary facias, selling a wide range of sports footwear, apparel and equipment from leading global brands. In the year ended 31 January 2023, MIG generated revenues of approximately £270 million.

Share price: 139.0p, Market Cap: £7,202m, EV/Sales: 0.8x, EV/EBITDA: 4.8x, PE: 11.1x, Yield: 0.6%

**Marks and Spencer (MKS LN)** announced (15 August) continued market share gains in its clothing, home and food divisions in a [trading update](#) for the first 19 weeks of FY24. LFL Food sales were +11% YOY with LFL Clothing and Home sales +6% YOY driven by strong performance in-store and more subdued growth online. A cautious outlook statement said: *There remain considerable uncertainties about the economic outlook, and there is a risk that the consumer market will tighten as the year progresses. Nevertheless, we now expect the outcome for the year to show profit growth on 2022-23, and the interim results to show a significant improvement against previous expectations.*

Share price: 215.4p, Market Cap: £4,248m, EV/Sales: 0.6x, EV/EBITDA: 5.4x, PE: 10.8x, Yield: 2.6%

**Pets at Home (PETS LN)** issued a [trading statement](#) (3 August) confirming strong sales in Q1 with revenue +7.9% (LFL +7.9%) benefitting from volume and value growth. Vet Group revenue was +16.3% benefitting from improve veterinary retention. Retail revenue +7.1% with food category remaining in volume growth and accessories trends consistent with previous quarters. Full year guidance unchanged.

Share price: 363.8p, Market Cap: £1,742m, EV/Sales: 1.4x, EV/EBITDA: 7.7x, PE: 16.4x, Yield: 3.5%

**Watches of Switzerland (WOSG LN)** [Q1 trading update](#) (10 August) confirmed trading in line with expectations and reiterated FY24 guidance. Group revenue of £328m was -1% at constant currency, with US sales +10% YOY driven by volume growth and strong demand, offset by UK -8% YOY impacted by the unwinding of benefit from product intake timing in Q4 FY23. Luxury watch sales were -2% YOY with Luxury Jewellery sales -15% YOY. FY24 guidance of 8-11% revenue growth with EBIT margin in line with FY23 is unchanged.

Share price: 713.0p, Market Cap: £1,708m, EV/Sales: 1.3x, EV/EBITDA: 9.7x, PE: 19.2x, Yield: n/a

**ASOS (ASC LN)** reported (23 August) Mike Ashley's Frasers Group has [further increased](#) its voting rights in the business to over 18%, making it the Group's third largest shareholder behind Anders Povlsen the owner of Denmark's Bestseller chain and Camelot Capital Partners.

Share price: 381.7p, Market Cap: £455m, EV/Sales: 0.4x, EV/EBITDA: 6.5x, PE: n/a, Yield: n/a

**Card Factory (CARD LN)** issued a brief but positive [trading statement](#) (7 August) with trading in the first six months ahead of expectations, driving an upgrade to full year guidance: *The macro backdrop continues to be uncertain, and there is still much to be delivered over the remainder of the year. Nevertheless, given the strength of the performance in the first half, together with our current outlook for the second half, the Board now expects the full year outturn to be materially ahead of its' previous expectations.*

Share price: 106.0p, Market Cap: £363m, EV/Sales: 1.0x, EV/EBITDA: 4.4x, PE: 8.0x, Yield: 1.3%

**Carr's Group (CARR LN)** issued a [profit warning](#) (4 August) driven by weakness in its Agricultural division. *In the current financial year, demand is lower in the USA due to drought conditions and in the UK due to higher costs of all farm inputs. Expectations for August 2023, historically a strong trading month, have now been moderated by delayed recovery in our markets. From FY24 onwards management anticipates long-term recovery for this division as drought in the USA continues to recede and herds are rebuilt.... The Board expects adjusted profit before tax for the current financial year to be in the region of £8 million, and remains confident in the Group's longer-term prospects.*

Share price: 125.0p, Market Cap: £118m, EV/Sales: 0.8x, EV/EBITDA: 9.4x, PE: 16.8x, Yield: 4.2%

**Marks Electrical (MRK LN)** [AGM trading update](#) (10 August) confirmed trading in line with expectations in the four months to 31 July. Revenue of £36.2m is +30.7% YOY, implying strong market share gains versus the wider major domestic appliances and consumer electricals markets which were marginally down YOY. Growth was strong across televisions +84% YOY, washer-dryers +83% YOY and cordless vacuums +62% YOY.

Share price: 99.0p, Market Cap: £104m, EV/Sales: 0.8x, EV/EBITDA: 10.7x, PE: 18.5x, Yield: 1.1%

**Cake Box (CBOX LN)** released an [AGM statement and Bord Update](#) (22 August) confirming positive trading momentum from H2 FY23 has continued, with franchisee store LFL sales +6.8% for the first 17 weeks of FY24, accelerating from the 5.4% LFL sales growth in the first 11 weeks reported at the Group's FY23 results on 26 June 2023. Seven new franchise sites have opened in the current financial year. Non-Executive Chairman of Cake Box, Nilesh Sachdev will step down from the Board in November with a recruitment process to appoint his successor underway. The Group will hold a Capital Markets Day on 18 October.

Share price: 157.0p, Market Cap: £63m, EV/Sales: 1.6x, EV/EBITDA: 8.4x, PE: 23.3x, Yield: 2.7%

**ScS Group (SCS LN)** confirmed full year trading in line with market expectations in a [trading update](#) (3 August) benefiting from effective cost management and improved trading through H2. LFL order growth of 6.0% from week 34 to week 52 is an acceleration on the 5.7% announced for weeks 27 to 33 with order intake in line with FY22 despite the more challenging macroeconomic backdrop. The Snug brand, acquired in January 2023 is trading in line with expectations. *We are cognisant of the economic conditions facing our customers including higher interest rates and low consumer confidence, which are forecast to continue throughout FY24. However, we remain confident that the Group's strategy and strong balance sheet will enable ongoing trading resilience and we continue to expect to grow our market share while selectively investing in store and other strategic growth opportunities.*

Share price: 171.5p, Market Cap: £58m, EV/Sales: 0.2x, EV/EBITDA: 2.3x, PE: 11.1x, Yield: 8.0%

**Superdry (SDRY LN)** announced that it has agreed a [secondary lending facility](#) (7 August) of up to £25m with Hilco Capital Limited, providing the Company with improved liquidity to accelerate the implementation of the turnaround plan and cost reduction programme. The facility with Hilco is for a twelve-month term with the option to extend and is at an interest rate of 10.5% plus the Bank of England base rate on the drawn element. This agreement is in addition to the Group's existing asset backed lending facility with Bantry Bay Capital.

*Share price: 56.8p, Market Cap: £56m, EV/Sales: 0.4x, EV/EBITDA: 4.9x, PE: n/a, Yield: n/a*

**Angling Direct (ANG LN)** announced a [trading update](#) (23 August) reporting a 'strong revenue performance' in H1 FY24. Retail store sales were +11.3% TOT, with LFL store sales +4.9% YOY, benefitting from increased transaction volumes. The Group now has 47 stores following 2 new openings in the period. UK online sales were +8.3% YOY %, also driven by higher transaction volumes, with EU online sales +39.9% underpinned by progress in Germany. FY24 outlook in line with expectations (revenue of £83.0m and pre-IFRS 16 EBITDA of £2.7m).

*Share price: 38.0p, Market Cap: £29m, EV/Sales: 0.3x, EV/EBITDA: 5.1x, PE: 43.1x, Yield: n/a*

**Revolution Bars (RBG LN)** announced a [pre-close trading update](#) (26 July). The Peach Pubs acquisition is performing strongly, with full year LFL sales +14% vs. pre-covid comps. The Peach acquisition is now largely integrated, expanding the Group's pubs and gardens offering. Overall group LFL sales were 8.7% lower vs. pre-covid as trading across late-night bars remains difficult, impacted by younger consumers who have less disposable income. FY23 EBITDA (IAS 17) is expected to be in line with market expectations of £6.6m. The Group had net bank debt of £20.8m as at 25 July 2023. Preliminary Results for FY23 will be reported on 17 October.

*Share price: 5.2p, Market Cap: £12m, EV/Sales: 0.9x, EV/EBITDA: 8.2x, PE: n/a, Yield: n/a*

**\*Share price and valuation data based on Bloomberg consensus at 24 August 2023.**

## Headlines

**Wilko's** administrators, PwC, have concluded that [jobs will be lost and stores will close](#) as attempts to find a buyer for the whole business have failed. The discount homeware and household goods chain employs c.12,500 staff across 400 stores. PwC had reportedly held talks with several parties rumoured to include Poundland, B&M and The Original Factory Shop. Some stores may be bought, either individually or as part of larger packages of the business with Pepco Group owner of Poundland) said to be in discussions to secure roughly 100 stores.

**AllSaints**, the fashion retailer, reported [record results](#) in the year ended 28 January 2023. Total sales increased 36% to £457m, with a strong performance attributed to product development and its ecommerce proposition. Profits at the company, which has been owned by Lion Capital, the private equity firm, since 2011, rose by 50 per cent to £58.6m. The company, which has about 2,000 employees, has 240 stores and concessions in Britain, Europe, North America and Asia.

**Clintons** is considering closing 38 stores – approximately one-fifth of its store estate – to avoid insolvency according to [The Times](#). Clintons has closed 158 stores since it was sold back to its American owners in a fast-track insolvency in 2019, but the business struggled to restore its finances even as it cut costs and explored a merger with Paperchase in December 2022. Paperchase has since fallen into administration. Its stores were closed with the loss of 900 jobs and its brand was rescued by Tesco. Clintons had sought a merger to "benefit from economies of scale" and to return to profitability but talks "broke down" in January and Paperchase collapsed.

**Birkenstock** reported a fall in profitability in its UK division of almost a quarter in FY22, despite a 50% increase in revenue. The Brand is reportedly [exploring an IPO](#). Private equity owner L Catterton has reportedly started talks in advance of a potential IPO of the company, with investment banks Goldman Sachs and JP Morgan advising. If the stock listing goes ahead, the German footwear retailer is expected to be valued at more than \$8bn (£6.26bn).

**Majestic wine** has [partnered with Uber Eats](#) to accelerate its on-demand delivery ambitions. The deal allows customers to order from hundreds of Majestic Wine products, beginning in an initial eight Majestic stores before rolling out across all 177 stores by the end of October.

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**Several grocers are cutting prices across key ranges in response to the ongoing cost of living crisis.** [Aldi](#) and [Iceland](#) both announced fresh price cuts. Aldi has cut the price of over 30 grocery items including fresh produce such as apples, oranges and peaches, whilst Frozen food specialist Iceland has cut the price on 200 of its “most popular products” as part of the launch of its money-saving initiatives to “help parents who are feeling the pinch during the school summer holidays”. [Tesco](#) has also announced it will swap more than 50 key everyday products in its Express stores with lower-priced alternatives. Many replacement items will be from its own-brand range with some items costing less than a third of the price. [Sainsbury's](#) has added a further 40 products into its Aldi Price Match Campaign, taking the range to more than 400 products, whilst [Ocado's](#) ‘Big Price Drop’ initiative includes more than 248 products.

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