Upcoming Events

2 Nov: November MPC Summary

14 Nov: UK Labour Market Overview

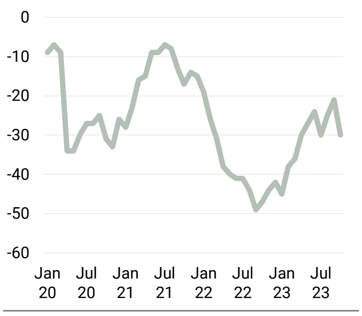
15 Nov: ONS Inflation Data

17 Nov: ONS Retail Sales Data

22 Nov: UK Autumn Statement

24 Nov: GfK Consumer Confidence

Chart of the moment
UK Consumer Confidence



Source: GfK, Bloomberg

23 October 2023

September slump

September's data provided a negative surprise with retail sales reversing August's gains and consumer confidence falling sharply, ahead of the key 'golden quarter'.

Retail sales fell sharply in September, reflecting indications of a broader weakening in the UK economy. September's retail sales volumes (inc. fuel) fell by 0.9% month on month, well below the consensus expectations of a 0.4% decline and wiping out the 0.4% rise recorded in August. Non-food store sales were 1.9% lower, attributed to continuing cost of living pressures combined with the unseasonably warm weather, with clothing sales down 1.6%. **Online sales** values fell by 1.3% from August to September, led by a 3.2% decline in spending across textiles, clothing and footwear stores. As the fall in the value of online sales was larger than the 0.2% MoM fall in value of total retail sales, the proportion of sales transacted online fell from 27.0% in August to 26.7% in September; albeit online sales mix remains well above pre-pandemic levers of 19.7% reported in February 2020. The broad-based nature of the decline implies the pressure of cost of living and the intensifying drag of higher interest rates are biting as we enter the 'golden quarter', the critical Christmas trading period for retailers. We expect consumers will remain cost-conscious and price sensitive, with an increase in promotional activity likely as retailers attempt to persuade customers to part with their money.

UK CPI remained stubbornly sticky in September. Headline consumer price inflation held firm at 6.7%, ahead of consensus expectations of 6.6%. There was an easing of inflation across core goods, falling to 4.7% from 5.2% in August, and food price inflation also moderated to 12.3%, versus 13.4% a month earlier. However, this was offset by an increase in services inflation to 6.9% from 6.8% and higher fuel costs, +3.6% MoM having fallen by 4.0% in the same period a year ago. The UK is battling more persistent inflation than many of its peers, with September's inflation rate exceeding that of France and Germany, as well as the EU-wide and US rates. This has been attributed in part to higher wage growth in the UK, caused by a contraction in the size of the workforce since the Covid pandemic resulting in pressure to increase pay. Headline inflation should fall sharply next month thanks to a cut in the cap on household energy and an ongoing trend in declining food prices.

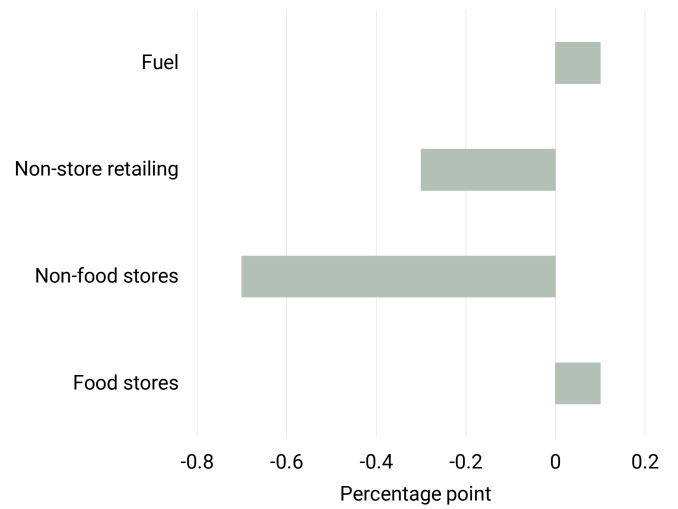
UK Base Rate is expected to be maintained at 5.25 per cent at the next meeting on 2 November, despite the higher than forecast CPI. Rates are now expected to remain "higher for longer" as the escalating conflict in the Middle East creates a key risk to the outlook, with jumps in oil and natural gas prices likely to mean inflation will take longer to fall towards the BoE's 2 per cent target. Economists do not expect interest rates to being to fall until the final quarter of next year.

Consumer confidence unexpectedly plunged in October. The GfK consumer confidence index fell nine points from minus 21 to minus 30, the largest monthly drop since March 2020 when the Government first introduced Covid-19 lock downs. October's read also reflects a sharp reverse in sentiment versus rises reported in August and September. Economists had been expecting a further improvement to minus 20. The turnaround was attributed to "fierce headwinds of meeting the accelerating costs of heating our homes, filling our petrol tanks, coping with surging mortgage and rental rates, a slowing jobs market and now the uncertainties posed by conflict in the Middle East", dampening outlook for the key Christmas trading period.

Business rates could be in line for a sharp increase. The September inflation figure is typically used to decline the annual increase in the property- based tax collected from businesses including retailers, leisure operators and offices. The 6.7% rate reported implies an additional £1.95bn in business rates across England according to real estate intelligence firm Altus Group. Several large retail Groups have called on the Government to scrap the inflation linked rise in the Autumn Statement next month. The jump in rates could be particularly painful for smaller businesses who also face an end to government relief schemes on rates, creating a "double whammy" cost increase.

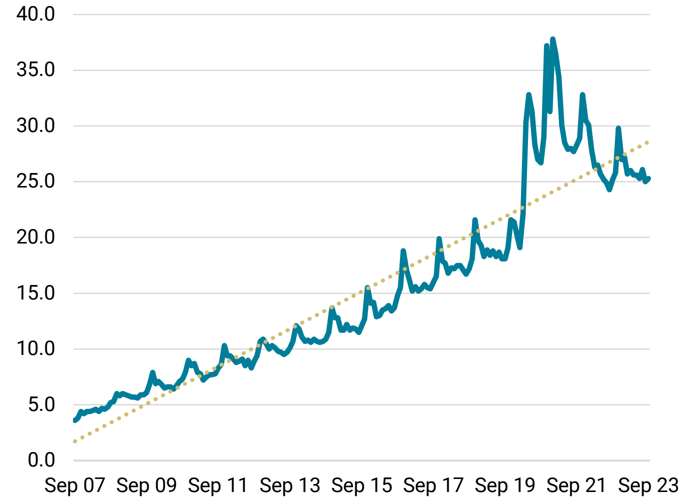
Charts

Exhibit 1: Retail sales contribution



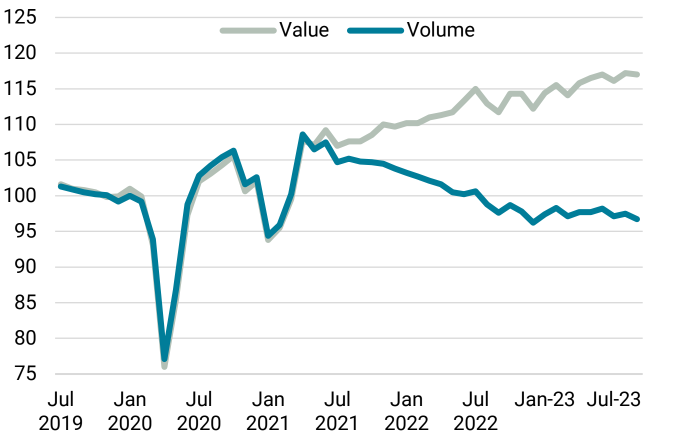
Source: ONS

Exhibit 2: Online sales as % of retail sales



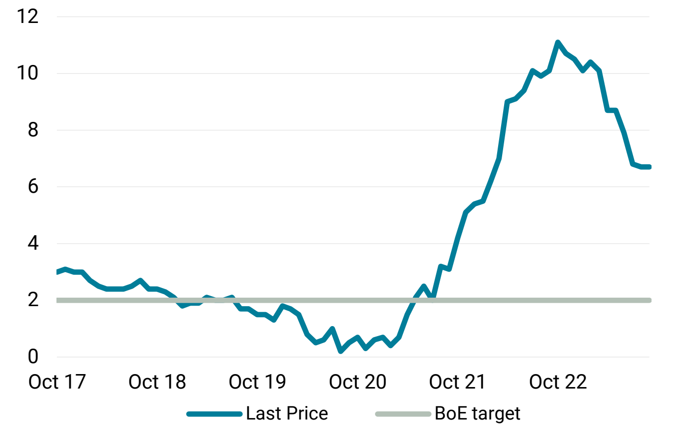
Source: ONS

Exhibit 3: Retail sales volume vs. value



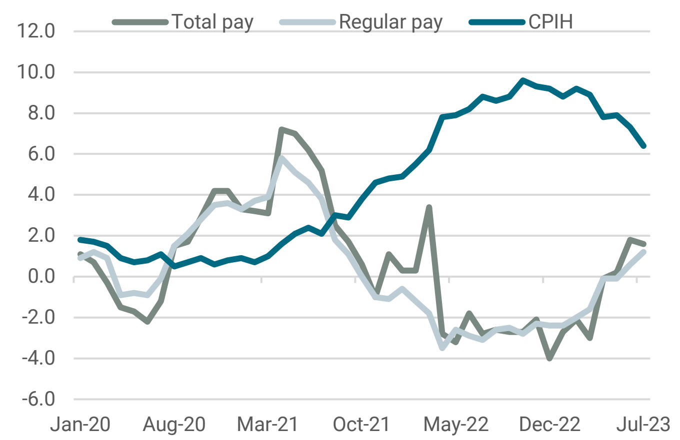
Source: ONS, Bloomberg

Exhibit 4: UK CPI



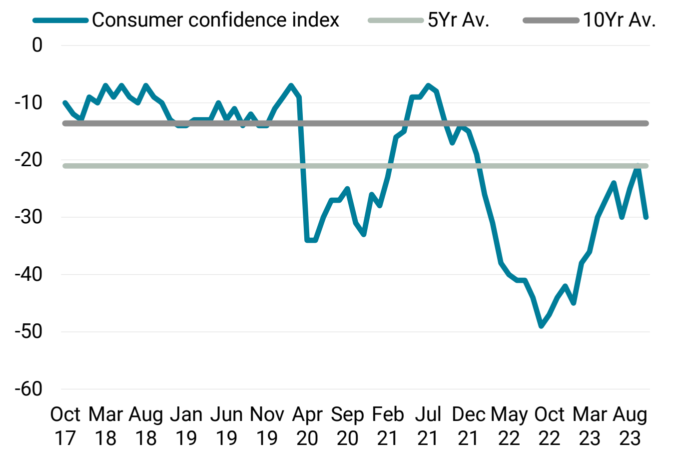
Source: ONS, Bloomberg

Exhibit 5: UK real wage growth (%)



Source: ONS

Exhibit 6: UK consumer confidence index



Source: GfK, Bloomberg

RNS

The Restaurant Group (RTN LN) shares jumped after it announced a recommended cash offer from Apollo. The bid of 65p per share represents a 67% premium to the 12-month average price, valuing the business at an enterprise value of £701m, approximately 9.0x adj. EBITDA for the 12 months to 2 July 2023.

Boohoo Group (BOO LN) reported interim results for the six months to 31 August, with H1 performance reflecting the challenging macro-economic backdrop. Revenue of £729.1m was 17.4% lower YOY, with weaker consumer sentiment impacting demand. Due to slower volume recovery than previously anticipated and the ongoing focus on more profitable sales within the Group's labels, revenue for FY24 is now expected to decline by 12% to 17% EBITDA margin guidance is unchanged at 4% - 4.5% given good progress made on gross margin progression and cost control.

ASOS (ASC LN) released a trading statement sales declined 15% YoY in P4, in-line with guidance, with a stronger start to the period followed by weaker performance in July and August amidst a deterioration in the UK clothing market. Adj. gross margins were up c.150bps YoY in H2 (vs. guidance up c.200bps), driven primarily by lower freight and duty costs, partially offset by tactical investment in promotional activity to prioritise stock reduction in a challenging trading environment. FY23 EBIT is expected around the bottom of the guided £40m to £60m range with free cash inflow in H2 now expected to be c.£60m excluding refinancing costs (previously £150m).

THG (THG LN) released a Q3 2023 Trading Statement with group revenue 4.4% lower (-2.1% In constant currency). Performance improved each month, with the Group returning to growth in September. In THG Beauty the impact of global de-stocking has eased, with the division +5.1% in September. THG Nutrition has been impacted by a rebrand that has limited new product launches in the period but delivered a record Q3 EBITDA performance. THG Ingenuity has been impacted by extended sales cycles but continues to build monthly recurring revenues. Full year revenue guidance of 0% to -5% remains unchanged.

Greggs (GRG LN) confirmed trading in line with full year expectations in its Q3 Trading Update. Total sales were +20.8% in the 13 weeks to 30 September, LFL sales were +14.2%. The Group has opened 82 net new shops YTD out of a planned 135-145 for the full year. The rate of cost inflation as eased, with plans for promotional activity in Q4.

Frasers Group (FRAS LN) announced the acquisition of SportScheck, one of the leading sports retailers in Germany. SportScheck has over 75 years of expertise in sports retail, with 34 stores in prime city locations across Germany, revenue of approximately €350m, and a customer base of over 13 million visitors per year.

Sosandar (SOS LN) shares fell sharply after it announced a Trading & Strategic Update . H1 revenue of £22.3m was +6.0% YOY. Sosander.com orders were 20% lower YOY, but AOV was significantly increased, +11% due to lower promotional activity. Sales through third party partners Next and M&S were described as strong. The Group announced plans to open its own brick and mortar stores and plans to significantly reduce price promotions in order to grow its margin by transitioning customer behaviour to the non-promotional led proposition it already operates successfully across all its third-party channels.

Dunelm (DNLM LN) released a first quarter trading update with sales of £390m +9% YOY, largely driven by volume, with broad based growth across categories Gross margin was +120bps benefitting from a net tailwind from freight and FX. One new store opened in Q1 with three stores expected to open in Q2, in line with full year target of 5-10 stores. Full year outlook unchanged.

Superdry (SDRY LN) announced a new IP Joint Venture with Reliance Brands Holding UK Ltd to accelerate growth in India. The transaction includes the sale of its IP assets including the SUPERDRY brand and related trademarks in India, Sri Lanka and Bangladesh to the JV, for £40.0m, resulting in gross cash proceeds of £30.4m for SDRY.RBUK and Superdry will own 76% and 24% of the joint venture vehicle respectively.

Revolution Bars Group (RBG LN) reported FY23 results with total revenue +£11.8m to £152.6m and EBITDA of £17.0m, in line with expectations set in January. However, the Group faced continuous and varied external headwinds, particularly impacting bars, during FY23, all combining to deliver -8.7% LFL in FY23. Peach Pubs performed strongly with LFL sales +14.1% vs. 2019, delivering diversification of sales and guests to the Group. Challenging trading has continued into FY24 with LFL sales -5.5% compared to FY23, though this has improved in the last three weeks to -3.5% as a result of the return of students and corporates in bars and continued strong performance in pubs.

Hollywood Bowl Group (BOWL LN) pre-close Trading Statement confirmed positive FY23 trading with revenue of £215m +11% YOY, with UK LFL growth of 4.1% and Canada +15.1%. FY23 EBITDA was guided ahead of market expectations, with £52.4m of net cash at the year end and a further £25m of undrawn RCF facilities available.

Loungers (LGRS LN) reported positive revenue growth for H1 with LFL sales +7.7%, accelerating from the 5.7% reported in the 12 weeks to 9July in a trading update . H1 sales of £149.6m, +22.3% YOY (H1 FY23: £122.3m). Inflationary pressures continue to diminish in line with expectations. The Group opened 16 new sites during H1 FY24 (H1 FY23: 11 new sites), taking the portfolio to 238 sites as of 1 October 2023. Non-property net debt on 1 October was £14.3m.

Currys (CURY LN) released an Update on Strategic Review of Kotsovolos its business in Greece and Cyprus, confirming interest from several buyers who have submitted non-binding offers.

Shoe Zone (SHOE LN) announced strong trading and a material upgrade to FY23E Adj. PBT in a Full Year Trading Update with sales +6.1% YOY to £165.7m and adj. PBT to be no less than £16.0m. Trading has benefitted from strong demand through the key back to school period, combined with easing cost pressures.

Supreme (SUP LN) confirmed trading ahead of market expectations in its AGM Trading Statement with revenue to be £195m - £205m and adj. EBITDA of c.£28m - £30m, a £3.5m upgrade to previous guidance with c.£2m of the incremental EBITDA from the Elf opportunity and around £1.5m from the core business. Management now anticipates the contribution of the distribution of Elf and Lost Mary brands across FY 2024, based on current legislation, will be around £4 of Adj. EBITDA from around £40m of revenue. In a separate announcement the Group gave a Vaping Category Update announcing proactive measures to reduce the appeal of vaping to underage vapers, including plain packaging, discontinuing bright coloured disposable, age-appropriate flavours, trading only with retailers with age robust verification and promoting the responsible location of products within stores.

Marks Electrical (MKS LN) announced a strong first half trading update with revenue growth of 24.8% to £53.9m (HY23 £43.1m) but shares fell after it warned margins were weaker due to the strategic decision to introduce its installation service, combined with inflationary pressures in distribution costs.

Gear4music (G4M LN) share price fell after it announced its Half Year Trading Update. H1 sales were 6% lower YOY with UK sales +3% offset by a 15% fall in European and Rest of World sales. Lower sales reflect the Group's focus on prioritising gross margins ahead of sales growth in what remains a challenging market. Full year outlook unchanged.

Next (NXT LN) announced the Acquisition of FatFace for £115.2m to be paid partly in cash and partly in shares. The transaction will not materially impact the NEXT Group's underlying profit before tax or EPS in the current year.

Zeus is a leading independent financial services group working across public and private capital markets in the UK. Our core services include Investment Banking, Equity Sales, Research and Trading, and Investment Management.

We are a highly entrepreneurial firm with a strong track record working with ambitious founders, innovators and their teams to realise the potential of their businesses.

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