

Upcoming Events

- 30 Jan: GfK Consumer Confidence
- 13 Feb: Labour Market Overview
- 14 Feb: ONS Inflation Data
- 16 Feb: ONS Retail Sales Data

23 January 2024

A 2024 of two halves?

The most recent slew of economic data seems somewhat inconsistent, with CPI surprising on the upside and December retail sales landing well-below market forecasts, despite an uptick in consumer confidence and a return to positive real wage growth. Most corporate updates have reported lacklustre Christmas trading, with a focus on cost control and profitability ahead of growth. Luxury retailers in particular have underperformed, with consumers increasingly cost conscious and promotion led. We believe 2024 could be a “year of two halves”, with the potential for H1 trading to remain challenging, before lower inflation and potential interest rate cuts provide support from Q2 onwards.

UK retail sales volumes fell sharply in [December](#), down 3.2% MoM, well below the 0.5% decline analysts had expected, in what is typically the busiest shopping month of the year. December’s decline is the largest monthly fall since January 2021, when sales were impacted by the introduction of the UK’s third COVID-19 lockdown. Sales volumes fell across food stores (-3.1% MoM), non-food stores (-3.9% MoM) and non-store retailing (-2.1% MoM). The decline has attributed in part to consumers being more price-sensitive and bringing forward their Christmas shopping to take advantage of November’s Black Friday sales, as well as the ongoing impact of cost-of-living crisis on discretionary income. On an annual basis, sales volumes fell 2.8% in 2023, following a fall of 3.4% in 2022, putting annual sales volumes at their lowest levels since 2018.

Online sales declined 1.7% MoM in December. As this was less than the fall in the value of total retail sales, the proportion of sales made online rose from 26.6% in November to 27.1% in December, slightly above the 26.5% 12-month average. Online sales mix remains notably higher than pre-pandemic levels (19.7% in February 2020) reflecting the ongoing structural shift to online retail over the past four years.

Consumer confidence nudged higher in December, up two points to -22 with all five measures improving MoM. Whilst still firmly in negative territory, overall confidence is 20 points higher versus last year (December 2022: -42), with a notable improvement in the outlook for personal finances over the next 12 months at -2 (December 2022: -29). Improving confidence reflects a return to real wage growth, with average pay growing ahead of inflation in recent months.

UK wage growth slowed in the three months to November, with average earnings excluding bonuses +6.6% YOY, versus the 7.3% growth reported in the three months to October. The number of job vacancies fell for the 18th time in a row, extending the longest running period of decline on record. Retailers saw the sharpest fall in vacancies, despite the key Christmas trading period. A number of UK recruiters have warned of a slowing UK jobs market recently, citing weakening confidence among employers. Despite a slowdown in wage growth, the sharp drop in UK inflation means in real terms, regular pay was +1.4% YOY.

UK inflation unexpectedly rose in December, following two months of sharp decline. The consumer price index (CPI) measure of 4.0% was +0.1% versus the 3.9% reported in November and was ahead of the 3.8% analysts had forecast. This increase was primarily driven by higher tobacco duty, introduced following the Autumn Statement. Core inflation, which looks at price rises excluding volatile categories such as food and energy, was flat at 5.1%, whilst food inflation fell again, to 8.0% from 9.2% in November, having peaked at a 45 year high of 19.2% in March. Despite December’s unexpected increase, favourable base effects and a fall in utility prices are expected to result in CPI falling below the BoE’s 2.0% target by April, with expectations for rate cuts from Q2.

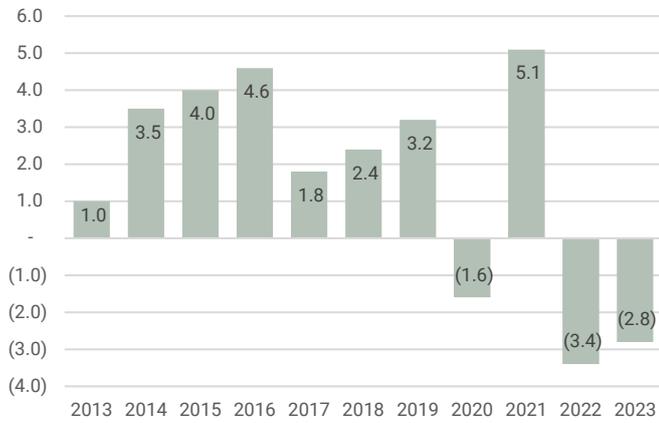
Chart of the moment
ONS retail sales



Source: ONS, Zeus

Charts

Exhibit 1: Retail sales volumes YoY (%)



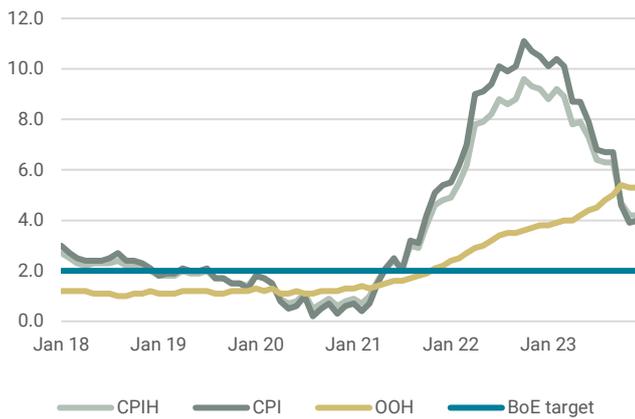
Source: ONS, Retail sales annual volume, percentage increase on a year earlier, seasonally adjusted, Great Britain, 2013 to 2023. Zeus.

Exhibit 2: Retail sales volume vs. value



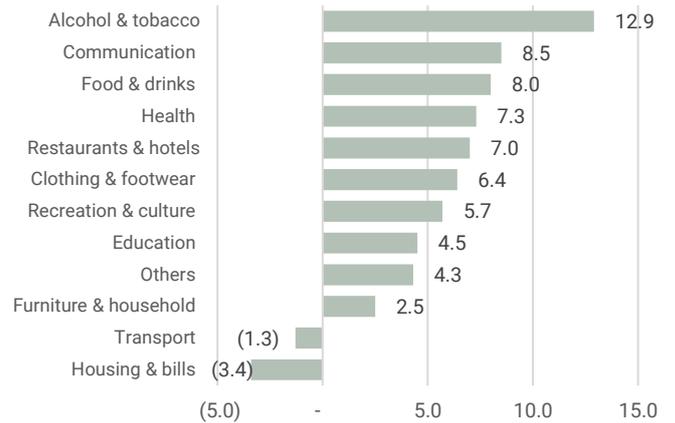
Source: ONS, Zeus

Exhibit 3: UK Inflation



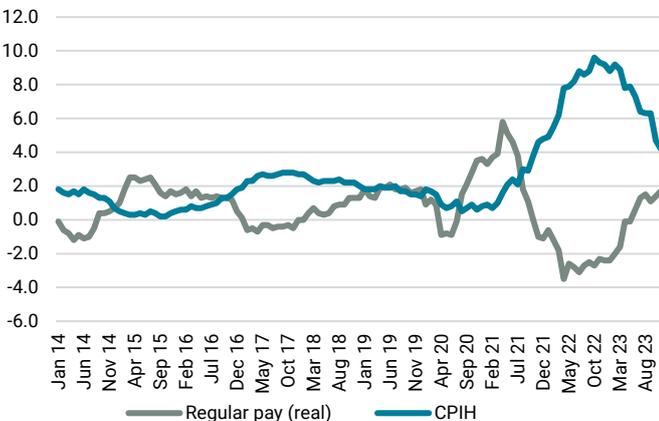
Source: ONS, BoE, Zeus

Exhibit 4: Contributors to CPI, Dec 23 (%)



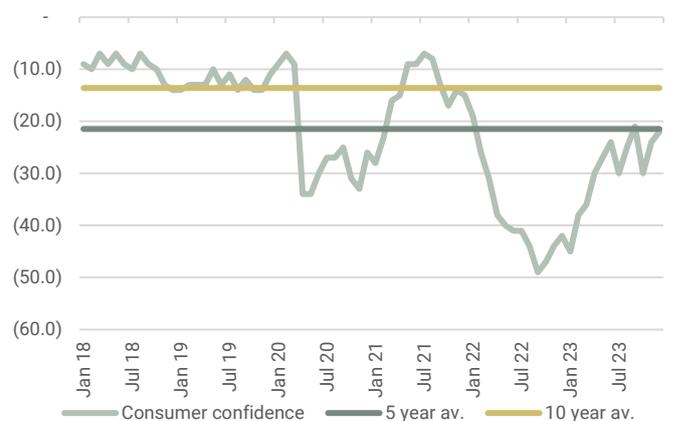
Source: ONS, Inflation by category, Zeus

Exhibit 5: UK real wage growth vs. CPIH (%)



Source: ONS, Zeus

Exhibit 6: UK consumer confidence index



Source: GfK, Factset, Zeus

Share Price Performance

Exhibit 7: Share price performance

Company name	YTD	12-month	3-year	5-year	10-year
Superdry PLC	-54.8	-89.5	-92.3	-96.9	-99.0
Watches of Switzerland Group PLC	-45.6	-58.6	-40.2	n/a	n/a
JD Sports Fashion Plc	-33.0	-27.2	-32.1	24.7	609.1
Revolution Bars Group Plc	-31.6	-35.0	-82.6	-95.1	n/a
Ocado Group PLC	-27.2	-22.0	-78.6	-37.5	9.3
THG Plc	-22.1	34.2	-91.2	n/a	n/a
Marks Electrical Group Plc	-21.4	-20.6	n/a	n/a	n/a
Mulberry Group plc	-21.2	-46.9	-44.4	-55.5	-85.8
Hostmore PLC	-14.7	49.1	n/a	n/a	n/a
Tortilla Mexican Grill Ltd.	-14.1	-58.5	n/a	n/a	n/a
TheWorks.co.uk plc	-13.4	-44.7	-24.4	-81.8	n/a
Burberry Group plc	-13.0	-46.5	-29.1	-31.0	-18.6
Accrol Group Holdings plc	-8.5	12.3	-47.6	188.8	n/a
Card Factory Plc	-8.2	9.0	162.3	-43.9	n/a
Marks and Spencer Group plc	-8.0	67.9	86.4	-9.5	-46.2
DFS Furniture PLC	-7.6	-28.6	-48.3	-48.2	n/a
B&M European Value Retail SA	-7.5	19.6	4.4	69.9	n/a
Nichols plc	-7.0	2.4	-20.9	-32.3	-8.2
J Sainsbury plc	-7.0	16.7	18.1	1.3	-23.7
Dunelm Group plc	-6.0	-1.1	-11.0	45.5	18.7
Currys PLC	-4.9	-26.6	-61.1	-64.5	-82.3
Sosandar Plc	-4.8	-29.8	-4.1	-46.4	-97.8
Whitbread PLC	-3.0	19.8	14.3	-14.3	4.5
Virgin Wines UK PLC	-1.3	-31.5	n/a	n/a	n/a
Gym Group Plc	0.8	-19.3	-49.5	-49.8	n/a
Gear4music (Holdings) PLC	1.0	26.1	-81.8	-25.6	n/a
Tesco PLC	1.9	19.3	22.4	32.0	-10.5
Next plc	2.2	29.6	3.9	74.8	35.0
Shoe Zone PLC	2.3	-1.0	376.0	12.0	n/a
Mitchells & Butlers plc	3.6	60.4	16.1	3.4	-34.9
Warpaint London PLC	4.0	131.5	326.2	335.8	n/a
Supreme PLC	6.1	-2.6	n/a	n/a	n/a
Hornby PLC	6.3	-40.4	-74.2	-46.0	-78.6
Hostelworld Group Plc	7.0	21.7	94.7	-29.5	n/a
Artisanal Spirits Company PLC	7.1	-40.0	n/a	n/a	n/a
Naked Wines plc	7.3	-51.8	-91.4	-77.3	-88.3
N Brown Group plc	12.3	-42.0	-72.2	-81.1	-96.8

Source: FactSet

News flow

Superdry (SDRY) shares have traded lower after it released its [FY24 trading statement](#) confirming that, despite progress on cost savings and inventory reduction, full year profitability would be lower than expected. LFL sales in the 6 weeks from 28 Oct to 10 December were 7% lower, significantly below management expectations. It will publish its half year results on 26th January.

Watches of Switzerland (WOSG) share price fell sharply after it released a [trading update](#) warning of a volatile trading performance in the run-up to and beyond Christmas, with challenging macro-economic conditions impacting consumer spending across the luxury retail sector. Sales in the UK were more challenged, with consumers said to be allocating spend to other categories such as fashion, beauty, hospitality, and travel.

JD Sports (JD) shares fell after it released a [trading update](#) revealing worse than expected sales in the 22 weeks to 30 December, attributed to milder weather from September onwards and a more promotional market than had been anticipated. Revised guidance for FY24 Adj. PBT of £915m - £935m was c.10% below market consensus expectations.

Revolution Bars Group (RBG) shares traded lower after it issued a [trading and estate update](#). Group LFL sales growth of 9.0% in 4 weeks to 31 December, its best festive period since 2019. It announced plans to close 8 of its least profitable sites, citing the 10.8% increase in national living wage effective from April 2024 as a particular challenge. The Group expects to announce its H1 pre-close trading update on 24 January.

Ocado Group (OCDO) confirmed [FY23](#) performance has been delivered in line with guidance, with full year retail revenue +7.0% YOY to £2.4bn. It reported growth across average orders per week (+4%) and average basket value (+2.7%), driven by increase in average selling prices (+7.9%) offset by lower basket size (-4.5%). A focus on costs during the period has resulted in a return to positive EBITDA for the full year.

THG (THG) released a [Q4 and full year trading update](#) confirming trading in line with expectations. The Group's continuing operations returned to revenue growth in Q4, +1.1% YOY, driven by Beauty (+2.6%) and Ingenuity (+8.1%) offset by Nutrition (-3.9%). It achieved free cash flow breakeven in FY23, with c.£600m of available liquidity at year end. It also announced a 3-year [ingenuity partner fulfilment](#) agreement with Holland & Barrett that will see THG Ingenuity become H&B's main ecommerce UK and Ireland operational partner.

Marks Electrical Group (MRK) [Q3 trading update](#) warned FY24 profitability would be lower than anticipated after a challenging trading environment, where consumers remain highly price conscious, had impacted its gross margin. It revised guidance for FY24 revenue to be in the range of £115-118m with EBITDA in the range of £5-6m.

Mulberry Group (MUL) issued a [trading update](#) reporting sales fell -8.4% (6.6% CER) in the 13 weeks to 30 December, impacted by challenging macro-economic backdrop and decline in luxury consumer spending. Total retail sales were -1.5% YOY (+0.6% CER) with a positive performance in international markets +3.9% YOY (10.8% CER) benefitting from the Group's strategy of bringing overseas distribution in-house, offset by weakness in the UK, down 4.0% YOY attributed to the lack of VAT free shopping.

Hostmore (MORE) issued a [trading update](#) reporting H2 LFL revenue was flat YOY, an improvement versus H1 which was -2% YOY. December trading was stronger +4% YOY. Profitability in the period benefitted from previously announced restructuring. The Group maintains an objective of becoming debt free by allocating all free cash flow to repayment of borrowings.

Tortilla Mexican (MEX) [FY23 trading update](#) reported performance slightly behind previous expectations due to subdued consumer confidence impacting demand across the eating out market, in particular during Q4. It has focused on cost control across its supply chain, energy, and productivity resulting in an improved Adjusted EBITDA margin in H2 FY23 when compared to H1 FY23, in line with previous guidance.

Theworks.co.uk (WRKS) [interim results and Christmas trading update](#) maintained FY24 guidance despite pressures on sales and profitability through H1 continuing into H2. Given pressures on sales and profitability and uncertain trading outlook, it said its focus is now on cost reduction and margin growth in the short-term.

Burberry Group (BRBY) downgraded FY24 guidance in its recent [trading update](#) attributed to a wider slowdown in luxury demand, with a further deceleration seen in December.

Accrol Group (ACRL) announced the [acquisition](#) of Severn Delta, a wet wipe and tumble dryer sheet manufacturer based in Somerset, funded from existing cash reserves.

Card Factory (CARD) said full year adj. PBT would be at the top of the range of market expectations in a [trading update](#) covering the 11 months to 31 December, benefitting from continued positive momentum across the business.

Marks & Spencer (MKS) released an update on [Christmas 2023/2024 Trading](#) with total sales +7.2%, driven by growth across its food, clothing and home divisions. UK sales were ahead of expectations, offset by a softer international performance. It confirmed trading was in line with market expectations but gave a cautious outlook statement citing consumer and geopolitical risks, including additional cost pressures from higher wages and business rates.

DFS Furniture (DFS) maintained its full year profit guidance in a [trading update](#) for the 26 weeks to 24 December, saying market share gains and cost base improvements were mitigating more challenging trading conditions.

B&M European Value Retail (BME) reported strong profitable growth in the 'golden quarter' in a [trading update](#) covering the 13 weeks to 23 December. Group revenue was +5% YOY, with strong sales volumes resulting in a clean inventory position at the end of the period.

Nichols (NICL) reported FY23 adj. PBT would be above market expectations in a [trading update](#), as trading in the second half continued in line with the Group's growth strategy and the benefit of restructuring in the Our of Home businesses was realised more quickly than anticipated.

Sainsbury (SBRY) reported a solid Q3 update, with volume growth offsetting lower inflation, despite some softness in clothing and general merchandise sales. Its Q3 [Trading Statement](#) confirmed trading in line with previous guidance, with grocery sales in the six weeks to 6 Jan +8.6%, benefitting from the "Nectar Prices" loyalty card program and consumers choosing to switch up to its premium "Taste the Difference" range.

Dunelm (DNLM) reported continued sales growth and strong gross margin performance in an [interim trading update](#). H1 sales were +4.5%, driven by volume growth with Q2 sales +1.0% in a challenging market, against very strong comparatives (Q2 FY23: +14%). Expectations for the full year were maintained despite a cautious outlook for consumer spending.

Currys (CURY) reported a strengthening performance in a [trading update](#) for the 10 weeks to 6 January. It upgraded Adj. PBT guidance c.4% with positive momentum in the UK&I, in particular selling higher-margin services and recovery in the Nordics after a disciplined approach to margins and costs.

Sosandar (SOS) [reported](#) a record quarter for the three months to 31 December, with sales +23% YOY and all channels performing well. Gross margin improved from 56.8% to 58.3% due to planned reduction in price promotions. The company is rolling out its own brand stores, with the first UK store expected to be opened in Spring 2024.

Whitbread (WTB) reported continued strong performance in the UK and an encouraging performance in Germany in a [trading update](#) for the 13 weeks to 30 November. Premier Inn UK sales were +11% YOY, with Premier Inn Germany +47%, driven by expansion of the estate. It maintained guidance for FY24 and gave a confident outlook for FY25, with a positive forward booked position in the UK.

Virgin Wine (VINO) [interim trading update](#) for the six months to 29 December reported good Christmas trading, with H1 sales +2% YOY, and a significant improvement in profitability with EBITDA +122% benefitting from strong cost management. FY24 expectations maintained.

The Gym Group (GYM) [reported](#) continued positive trading trends though H2, resulting in good growth in memberships and yield. FY23 revenue was +18% YOY with members +8% and average revenue per member +9%. The Group will publish its full FY23 results and provide a strategy update together with guidance for FY24 on 13 March 2024.

Gear4music (G4M) announced peak season trading in-line with board expectations, with strong progress on margin and full year trading in line with market expectations in a [trading update](#) for the three months to 31 December. Christmas trading returned to 'historically normal' patterns, with a robust Black Friday period and peak revenues occurring the week before Christmas, following a relatively subdued period of trading in October and early November.

Tesco (TSCO) raised its guidance for FY23 following a "stronger trading performance than anticipated" through the Christmas peak. Its [Q3 and Christmas Trading Statement](#) confirmed a robust market share performance in the UK with strong LFL growth +9.2% in the four weeks to Christmas. Its 'Finest' range was +16.7% YOY, attributed to shoppers switching from premium retailers whilst it strengthened its value proposition through c.2,700 price cuts.

Next (NXT) issued a [trading statement](#) revealing better than expected full price sales through November and December and upgrading FY24 PBT guidance c.2% to £905m. In the 9 weeks to 30 December full price sales were +5.7% YOY, comfortably ahead of guidance of +2.0%. Initial outlook for FY25 sees LFL full price sales +2.5% YOY, highlighting wage growth and lower inflation as supportive, but potential for a weaker labour market, higher mortgage rates and disruption to shipping in the Suez Canal as creating some risks.

Shoe Zone (SHOE) reported [FY23 results](#) ahead of market expectations, benefitting from strong peak summer and back to school trading. A strong recovery in profitability and cash generation enabled it to propose a special dividend of 6.0p per share.

Mitchells & Butlers (MAB) reported strong trading over the festive season in its [first quarter trading update](#) with LFL sales +7.7% in the 15 weeks to 13 January, with growth accelerating to +10.1% over the five key festive days. Notwithstanding a 9.8% increase in the National Living Wage next April, the Group sees overall cost pressures abating, and revised FY24 guidance higher, to the top end of consensus expectations.

Warpaint London (W7L) reported continued strong trading for the year ended 31 December, with FY23 results to be ahead of market expectations in a [trading update](#). FY23 sales of c.£89.5m exceeded previous guidance of "at least £85.0m" with PBT upgraded to "not less than £18.0m" from previously announced "in excess of £16.0m", with net cash of £9.0m at period end.

Supreme (SUP) announced the [acquisition](#) of out of administration of the trade and assets of FoodIQ UK Holdings Limited ("Food IQ"), the protein manufacturer, for consideration of £175k, including a purpose-built manufacturing facility built just 18 months ago at a cost of c.£1.2m.

Hornby (HRN) shares rose after it reported strong Christmas trading in a [Q3 trading update](#). Q3 sales were +5% YOY, with strong growth of +10% in November, benefitting from activity around Black Friday. Strong growth in DTC sales and additional full-price sales helped to boost profitability. FY24 guidance was maintained.

Hostelworld (HSW) [reported](#) robust demand and market share growth in its FY23 trading update. Record net GMV and revenue were +32% YOY with growth across all regions, with Adj. EBITDA of c.€18.3m exceeding the upper end of market guidance (€17.5m - €18.0m).

Artisanal Spirits (ART) announced the [acquisition](#) of 100% of US based business, Single Cask Nation, funded from existing debt facilities, with the deal expected to be EPS accretive in the first full year of ownership. It said full year results for 2023 remain in line with guidance.

Naked Wines (WINE) [trading statement](#) reported trading in line with expectations and further progress on SG&A and inventory reductions. Sales were -10% YOY, showing an improving trend vs. the 18% decline reported in H1. The annual run-rate of SG&A costs has been reduced by £7m with closing inventory of £163m vs. £173m in Q3 FY23.

N Brown (BWNG) [Q3 trading update](#) confirmed FY24 EBITDA guidance was unchanged, with an improving product revenue trend through Q3 across Clothing & Footwear and home businesses.

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