

Upcoming releases

- 16 April: Labour Market Overview
- 17 April: ONS Inflation Data
- 19 April: ONS Retail Sales Data
- 26 April: GfK Consumer Confidence
- 9 May: Monetary Policy Summary

28 March 2024

# Benign backdrop

Momentum for interest rate cuts stepped up last month, as retail sales, inflation and wage growth data all came in below analyst forecasts. The market now expects three successive 0.25% rate cuts through 2024, starting as early as June. In corporate news, bellwether Next Plc gave an upbeat update, citing a positive outlook for consumer confidence, underpinned by real-wage growth.

**UK retail sales** volumes were flat month-on-month in [February](#), which we see as a resilient performance following a strong rebound in sales volumes in January (+3.6% MoM) and in the context of poor weather, with UK footfall down 6.2% YOY in February according to the BRC-Sensormatic IQ. s Growth in clothing (+1.7% MoM) and department store sales (+1.6% MoM) was driven by demand for new spring/summer collections but was offset by a decline in food (-0.3% MoM) and automotive fuel sales (-1.3% MoM). This was ahead of analysts' expectations for a 0.3% decline in retail sales volumes and combined with a strong rebound in January suggests the UK economy is recovering from the technical recession of last year. Online retail delivered the largest monthly rise in sales since July 2023, +2.1% MoM. Online clothing retailers reported strong sales growth (+7.3% MoM) as shoppers switched to online shopping because of poor weather; according to the Met Office, last month was the south of England's wettest February since records began in 1836. Sales volumes remain 1.3% below pre-pandemic levels, however, are +18.5% in value terms reflecting price inflation which has seen consumers consistently paying more to buy less.

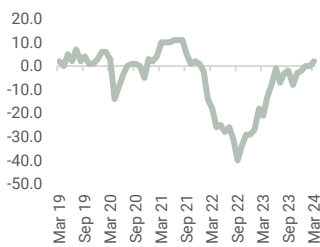
**UK inflation** rate stepped down sharply in [February](#) to the lowest rate since September 2021. The Consumer Prices Index (CPI) was +3.4% YoY, down from 4.0% reported in January and better than the 3.5% increase analysts had predicted. CPI peaked at 11.1% in October 2022. The Bank of England expects inflation will fall to its 2% target in Q2 of this year, driven by easing energy cost inflation. Core inflation (which excludes food and energy) fell to 4.5% from 5.1% in January and service price inflation also fell to 6.1% from 6.5% in January, in line with expectations. February's data suggests price pressures are easing faster than expected.

**UK interest rates** look set to fall over summer, as Bank of England governor Andrew Bailey said interest rate cuts were now "in play" following February's better than expected inflation data. At a meeting held last [Thursday](#), the BoE's Monetary Policy Committee turned noticeable dovish, voting 8-1 to hold interest rates at 5.25% with one member voting for an interest rate cut. In its previous meeting, two MPC members had voted for a rate hike. The market currently expects three 0.25 percentage point cuts to the base rate this year, with the first expected by June. This should translate into modest cuts to fixed mortgage rates in the coming weeks as the market stabilises.

**UK wage growth** eased slightly in [January](#). Average earnings including bonuses were +5.6%, down from 5.8% in December and below the 5.7% forecast by the market. Slowing pay growth reflects a softening job market, with the number of job vacancies declining and an uptick in people claiming jobless benefits. Signs of a slowdown in wage growth adds further weight to the case for cutting rates in the summer, albeit policymakers will be monitoring the impact of the increase in National Minimum and National Living wage effective from April.

**Consumer confidence** in personal finances hit its highest level in more than two years according to the most recent GfK survey. People's outlook on their personal financial situation for the next 12 months rose by two points MoM to 2 in March, the first time the measure has been above zero since December 2021, having recovered from a low of minus 40 in September 2022. The overall index remained unchanged at minus 21.

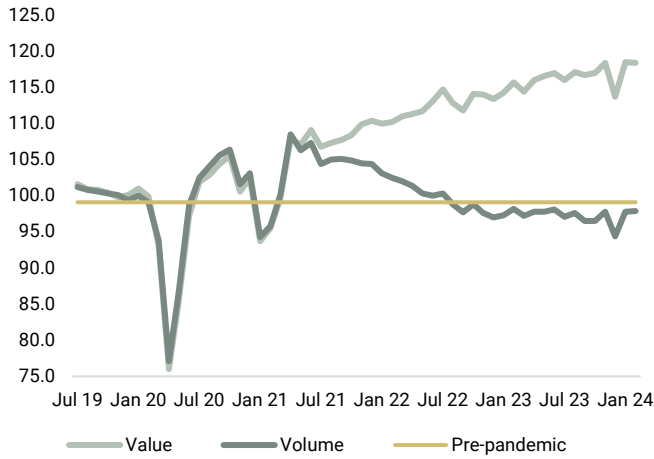
## Confidence for the year ahead



Source: ONS, Zeus

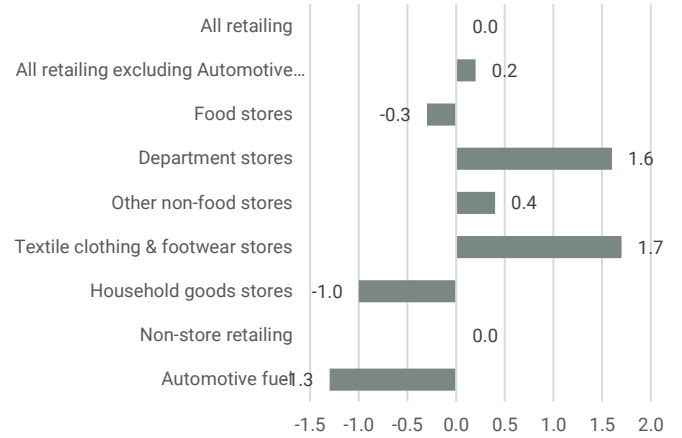
# Charts

**Exhibit 1: Retail sales vol. vs. val. (MoM)**



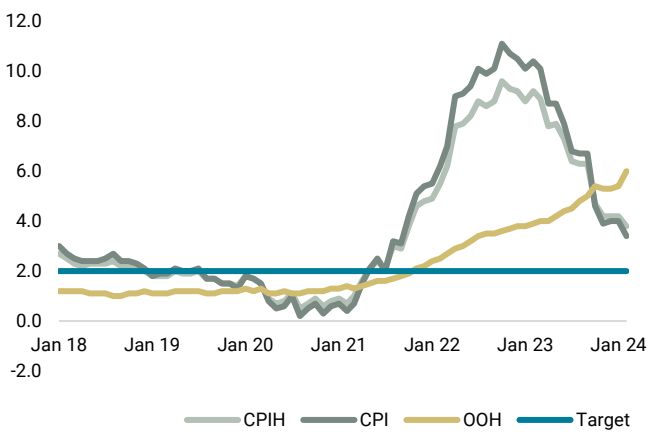
Source: ONS, Volume sales, monthly percentage change, seasonally adjusted, Great Britain, February 2024

**Exhibit 2: Retail sales volumes MoM (%)**



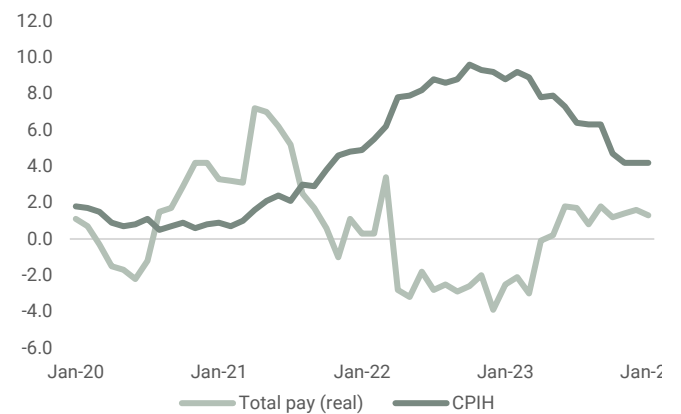
Source: ONS, Volume sales, monthly percentage change, seasonally adjusted, Great Britain, February 2024

**Exhibit 3: UK Inflation**



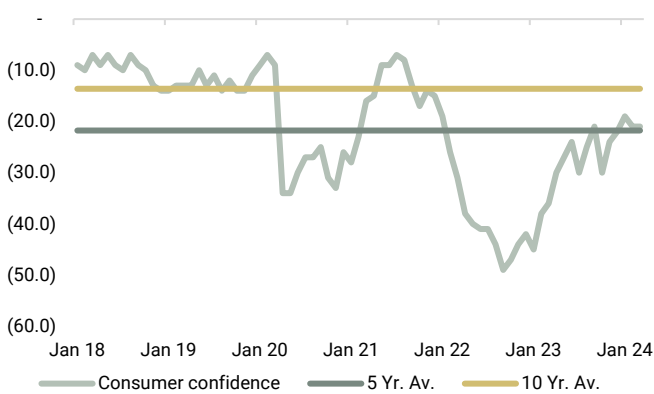
Source: ONS, BoE, Zeus

**Exhibit 4: UK real wage growth vs. CPIH (%)**



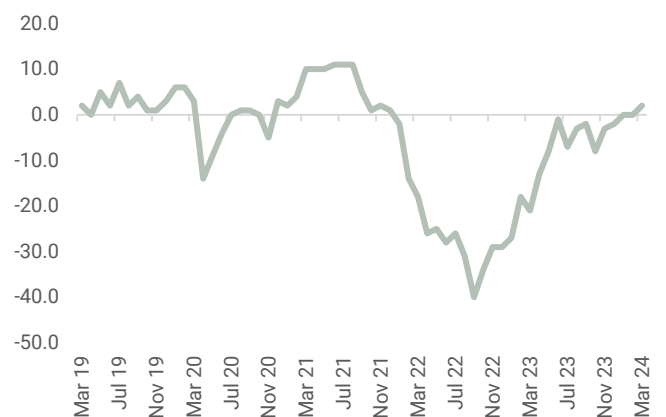
Source: ONS, Zeus

**Exhibit 5: UK consumer confidence index**



Source: GfK, Factset, Zeus

**Exhibit 6: Personal Financial Situation NTM**



Source: GfK, Zeus

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## News flow

**Currys (CURY)** released an update confirming the end of its offer period, with no proposal received from JD.com following Elliott Advisors' [Statement of intention not to make an offer](#). It also gave a [trading update](#) with sales running ahead of the Group's expectations driven by positive LFL sales growth across UK & Ireland and Nordics with gross margins remaining robust. Group adj. PBT guidance was raised to at least £115m, being the top end of the previously guided £105m - £115m range). The disposal of Greece is on track to complete in the first half of April, resulting in the Group finishing the financial year in a net cash position.

**AO World (AO)** reported a return to revenue growth in Q4 in its [FY24 trading update](#). Revenues for the full year to 3 March are expected to be c.£1.04bn with adj. PBT to be at the top end of the previously guided range of £28m- £33m. The Group expects to report net funds (pre IFRS 16) of over £30m at year end and remains confident in delivering 10-20% revenue growth in FY25 and restated its medium-term profit guidance of 5% adj. PBT margin.

**Next (NXT)** Next reported [FY24 results](#) marginally ahead of market expectations following updated guidance in January. Adj. PBT of £918m was +5% YOY and 15% higher than guidance for £795m set in January 2023, reflecting a better than anticipated performance in a challenging market. The outlook statement has a positive tone with the market described as more benign than it has been for a number of years.

**Halfords (HFD)** [FY24 trading update](#) warned of further material weakening in three of its core markets (i.e. Cycling, Retail Motoring and Consumer Tyres), resulting in a significant drop in LFL revenue growth in its Retail business. PBT guidance was downgraded to a range of £35m to £45m from previous guidance of £48m to £53m.

**JD Sports (JD)** [FY24 trading update](#) confirmed FY24 PBT is expected to be in line with the £915-£935m guided range. FY24 LFL sales were up 4.2% and organic sales growth was 8.4% having opened 215 new JD stores in the period. Growth in Q4 moderated with LFL sales +0.1% and organic sales +4.4%. FY25 PBT guidance set at £900m - £980m with the market described as challenging due to less product innovation and elevated promotional activity in key markets, particularly online.

**ASOS (ASC)** [H1 trading statement](#) reported sales down c.18% YOY, broadly in-line with guidance that P4 FY23 trends were expected to continue through H1 FY24. Free cash flow improved by c.£240m compared to H1 FY23 due to improvements in underlying profitability and the clearance of aged stock. Full-year guidance is unchanged, including: 5-15% sales decline, positive adjusted EBITDA, inventory back to pre-COVID levels, and positive cash generation, reducing net debt.

**Revolution Beauty (REVB)** [upgraded](#) FY24 guidance following a strong operational performance and YOY improvement in profitability since its previous update in early February. It now expects adj. EBITDA of at least £12.5m and revenue growth of approximately 2% for FY 2024, versus previous guidance of adj. EBITDA of between £11m and £12m and revenue growth of low single digits.

**Boohoo (BOO)** confirmed that a [CMA Investigation](#) into green claims had been completed and has not found boohoo to have breached any consumer protection law. The investigation has therefore not resulted in any legal action being brought against boohoo.

**Greggs (GRG)** [FY23 results](#) confirmed a record performance in line with market expectations. It said it has started 2024 well, with LFL sales in company managed shops +8.2% in the first nine weeks of 2024. CEO Rosin Currie said the Group remains on track to deliver its five year growth plan of double sales by 2026 and to have significantly more than 3,000 shops over the medium term.

**Accrol Group (ACRL)** announced a [recommended cash offer](#) from Navigator, a large Portuguese integrated pulp, paper, tissue, packaging and biomass-based energy company, listed on the Euronext Lisbon Stock Exchange. The offer of 38 pence per share values the Group at £127.5m, an 11.8% premium to the previous closing price.

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**CVS Group (CVS)** issued a [response to the CMA update](#) after it commenced a consultation on a proposal to make a market investigation reference in relation to veterinary services for household pets in the UK. The Group said it has already engaged constructively with the CMA and put forward a package of possible remedies to address its concerns.

**Moonpig (MOON)** [FY24 trading update](#) confirmed trading in line with expectations. Growth has been underpinned by strong performance at Moonpig, which saw volume growth across the Christmas, Valentine's Day and Mother's Day peak trading seasons. Expectations for full year revenue and Adj. EBITDA remain unchanged albeit the external environment was said to remain challenging.

**Kitwave (KITW)** announced the [acquisition of Total Foodservice Solutions Limited](#) an independent food wholesaler in the North of England which delivers catering supplies. Total cash consideration of £21.0m in has been funded from the Group's current banking facilities.

**Hornby (HRN)** announced it has entered into a [consultancy agreement with Mike Ashley](#) who will provide support particularly in relation to systems, operations, logistics and where relevant, broader matters of strategy. No remunerations is payable for these services. The announcement comes after [Frasers Group](#) increased its holding in Hornby in late February. In a separate release, it also confirmed it had [acquired The Corgi Model Club](#).

**Revolution Bars (RBG)** [confirmed](#) it is actively exploring strategic options including a restructuring plan for certain parts of the Group, or a sale of all or part of the Group. The Company also confirms it is currently engaged with key shareholders and other investors including Luke Johnson in respect of a fundraising.

**Frasers Group (FRAS)** announced it would place its MATCHES business into [administration](#) as a result of consistently missed business plan targets and ongoing material losses.

**DFS Furniture (DFS)** [interim results](#) warned of significant weakened market demand in recent months, with order volumes down c16% year on year across January and February and down -10% for H1 overall. It downgraded FY24 guidance with revenues expected to be in the range of £1,000m-£1,015m (£60m lower than previous guidance) and PBT to be in the range of £20-25m, £10m lower than previous guidance. It also warned If the Red Sea issues continue potential delivery delays could result in up to £4m of profit being deferred into FY25.

**Pets at Home (PETS)** [FY24 pre-close statement](#) confirmed trading in line with expectations with Q4 trends broadly as expected across Retail and Vets. Group underlying PBT for FY24 is expected to be £132m, in line with previous guidance, with FY25 expectations confirmed in line.

**Music Magpie (MMAG)** reported [FY23 results](#) with revenue 6% lower YOY driven by a decline in disc media and books, but Adj. EBITDA up 15.4% to £7.5m due to tight control of margin and costs. The Group finished FY23 with a record Black Friday period. Q1 FY24 trading was in line with management's expectations.

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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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