Upcoming releases

25 Oct: GfK Consumer Confidence

7 Nov: BRC-KPMG Retail Sales Monitor

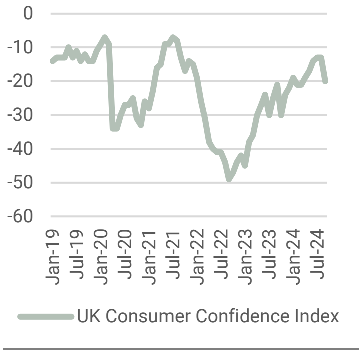
7 Nov: Monetary Policy Committee

12 Nov: Labour Market Overview

20 Nov: ONS Inflation Data

22 Nov: ONS Retail Sales Data

Confidence for the year ahead



Source: ONS, Zeus

24 October 2024

Budget-bated breath

The outlook for consumers is increasingly benign, with unemployment rates stable, inflation falling below target and the market primed for a further two cuts to base rates this year. Retail sales were also unexpectedly resilient in September, rising for the third consecutive month. However, the government's gloomy scene-setting ahead of the budget has weighed on consumer confidence of late, and we await full detail of the Chancellor's plans to be unveiled in next week's announcement.

UK retail sales unexpectedly rose for the third consecutive month in September. Figures released by the ONS showed retail transactions increased by 0.3% MoM, having risen 1.0% in August and 0.7% in July; analysts had expected sales volumes to contract by 0.4%. Record rainfall combined with a back-to-school boost drove increased sales in seasonal clothing & footwear and technology. Food stores were the only sector to see a decline, with supermarket sales volumes down 2.4% in September, attributed to unseasonably poor weather and consumers continuing to cut back on luxury food items. Despite the current positive momentum, sales volumes still remain 0.2% below pre-pandemic levels, impacted by several years of above average inflation.

UK inflation fell to 1.7% in September, its lowest level since April 2021 and below the Bank of England's (BoE) 2.0% target, increasing potential for an imminent cut to interest rates. Analysts had expected CPI to fall to 1.9% while the BoE had forecast a smaller decline to 2.1%. Key drivers included lower air fares and petrol prices in September versus the same month last year. Services inflation, a measure closely monitored by rate-setters fell to 4.9%, well below the 5.5% expected. This slide in UK CPI to below the BoE's 2.0% target strengthens the case for it to lower interest rates at a faster pace.

UK interest rates: The BoE cut interest rates by 25bps in August, the first reduction in the benchmark rate in four years, with a 25bp cut now fully priced in for the November meeting, and a high probability of a further 25bp cut in December. This would take UK interest rate to 4.5% by the end of this year, with markets now indicating further decline to 4.0% by May 2025, and 3.5% by December 2025.

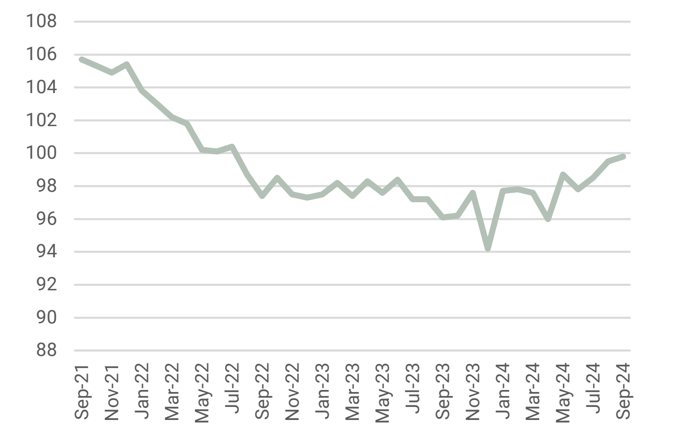
UK wage growth slowed to its weakest pace in over two years last month, indicating a cooling jobs market and providing support for further interest rate cuts this year. Average weekly earnings (ex-bonuses) grew 4.9%, the slowest pace since June 2022. Earnings growth has been steadily falling over the last year as the impact of higher interest rates feeds through to the labour market. Several business surveys have also reported a slowing down in the pace of hiring, with total job vacancies also lower.

Consumer confidence: Consumer confidence fell sharply last month, down seven points to -20, impacted by the Government's decision to withdraw winter fuel payments for pensioners and its pessimistic messaging on tax, spending and welfare ahead of the Budget on 30th October. All five confidence indices were lower month on month, with notable corrections in forward looking measures: Personal Financial Situation over next 12 months was down nine points from +6 to -3; General Economic Situation over next 12 months fell twelve points from -15 to -27 and the Major Purchase Index was ten points lower at -23 from -13.

Budget: Labour's first budget will be unveiled next Wednesday, 30 October, following several weeks of gloomy scene-setting. The government has been laying groundwork for a combination of spending cuts and tax increases, claiming as much as a £40bn funding gap in the public finances. The Chancellor is likely looking at options on employer national insurance, capital gains tax, inheritance tax and various duties, including that on fuel, having ruled out hikes to income tax, employee national insurance and VAT.

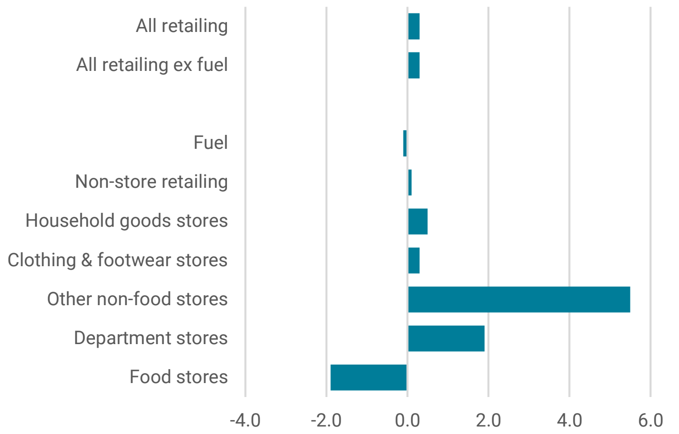
Charts

Exhibit 1: UK Retail Sales Volumes (MoM)



Source: ONS, Volume sales, monthly percentage change, seasonally adjusted, Great Britain, September 2024. Index 2022 = 100.

Exhibit 2: Retail sales by category

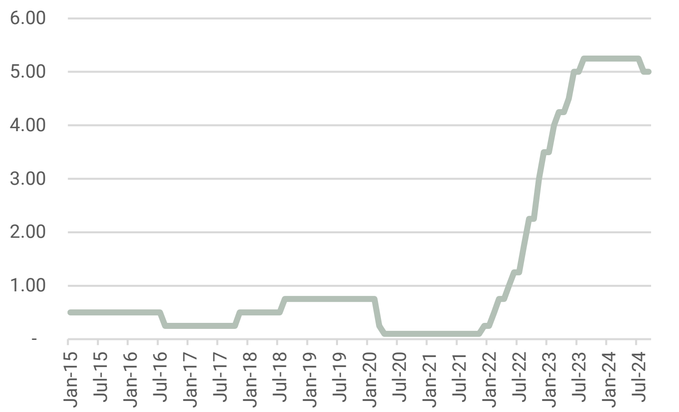


Source: ONS, Volume sales, monthly percentage change, seasonally adjusted, Great Britain, September 2024

Exhibit 3: UK CPI

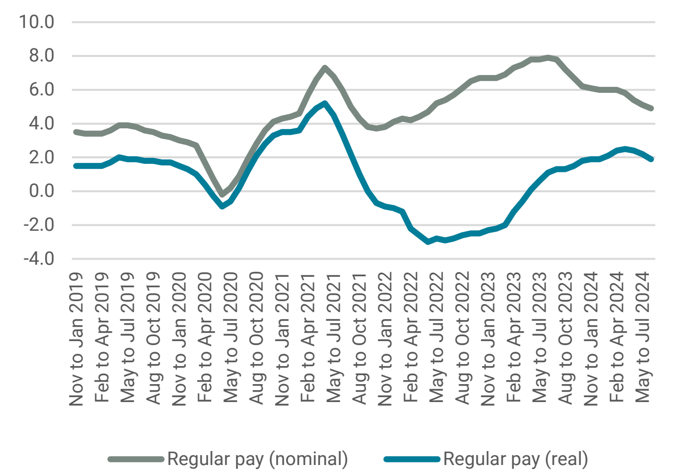
Source: ONS, CPI annual inflation rates, UK, September 2014 to September 2024.

Exhibit 4: UK interest rates



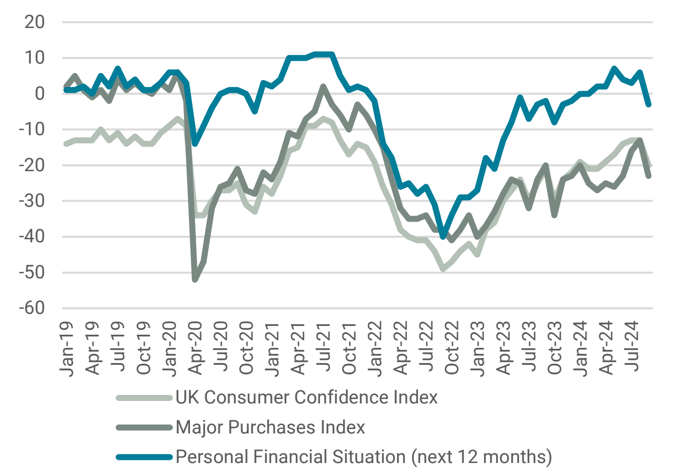
Source: ONS, Zeus

Exhibit 5: UK real wage growth (%)



Source: ONS, Zeus

Exhibit 6: UK consumer confidence index



Source: GfK, Zeus

Headlines

Applied Nutrition confirmed its Intention to Float targeting a valuation of between £340m - £400m, or 136p – 160p per share. The company believes admission to the LSE will support the Group's public profile and brand awareness, improve its ability to attract and retain quality talent as well as creating liquidity. The deal is being supported by four prominent Northwest entrepreneurs, including Mohsin Issa, who have committed to participate in the Offer to an aggregate value of £25m pursuant to cornerstone investment agreements.

AO World announced the Recommended Cash Acquisition of musicMagpie , valuing the business at £10m, or 9.07p per share, representing a 58 per cent premium to its previous closing price. With complementary business models focused online and on customer service, AO believes the Acquisition will augment its capability and value capture in the mobile and consumer technology categories.

N Brown announced a Recommended Acquisition for its sale to current shareholder Joshua Alliance for £191m, or 40p per share representing a premium of 48.1% to prior closing price. The deal is scheduled to take effect in the first quarter of 2025, subject to conditions. N Brown is expected to be delisted from the London stock exchange shortly after the effective date.

JD Sports Fashion announced Interim Results with H1 revenue of £5.0bn, +5.2 YOY (6.4% organic growth) with adj. PBT of £405.6m +2.0% YOY. The Group acquired Hibbett, a leading sports fashion retailer in the US, in July, it is expected to contribute c£25m of adj. PBT in the full year. Trading was confirmed as in line with no change to guidance, albeit FX headwinds could impact profitability in H2.

Boohoo Group released a Business Update confirming a new £222m debt facility and commencement of a review of options to unlock and maximise shareholder value, which could include the divestment of one or more divisions. H1 revenue of £1,177m was 7% lower YOY, with Adj. EBITDA of £21m down by a third with performance in youth brands impacted by external demand, offset by growth in Debenhams. CEO John Lyttle also announced he will step down.

Mulberry Group issued an Update regarding Frasers Group plc rejecting its latest cash offer of 150p per share, with its 56.4% shareholder Challice stating it would not sell its Mulberry shares to the retailer.

THG confirmed the Placing of a £95.4m fundraise to enable the Group to facilitate the Demerger of its Ingenuity division, simplifying its continuing business as a cash generative global consumer beauty and nutrition group. Its Q3 2024 Trading Statement reported continuing revenue of £433.1m, 2% lower YOY, with growth in Beauty (+2.8%) and Ingenuity (+16.0%) offset by decline in Nutrition (down 10.5%).

Greggs Q3 Trading Update reported sales +10.6% in Q3 and +12.7% YTD with company managed shop LFL sales +5.0% in Q3 and +6.5% YTD. It said it expected cost inflation to be at the lower end of the 4-5% guided range, with full year expectations unchanged.

Halfords H1 FY25 Trading update reported flat Group LFL sales vs tough H1 FY24 comps +8.3%. Autocentres LFL sales were +0.8%, with Retail LFL sales down 0.7%. Expansion in gross margin was driven by price optimisation and gains from Better Buying as FX headwinds abate, with the Group on track to deliver £30m of targeted full year savings to mitigate c. £35m of expected inflation.

Topps Tiles Q4 Trading Update reported revenue of c. £248m (excl. CTD Tiles), down 5.7% from the record levels achieved in FY23, with Q4 sales showing a sequential improvement, down 4.4% versus 6.9% in Q3. The trading environment was described as challenging with the market down by 10-15% year-on year.

Hollywood Bowl Group Trading Statement confirmed FY24 record revenue of £230.4m +7.2% YOY with UK +3.8% (flat LFL) and Canada +42.4%. (+6.3% LFL). The Group expects to report EBITDA pre-IFRS 16 ahead of market expectations4 and in excess of £65.0m.

Loungers Trading Update reported H1 revenue of £178.3m +19.2% YOY (LFL +4.7% YOY) and confirmed it continues to make good progress towards its target or returning to pre-Covid EBITDA of 13.5%. Net debt (ex-leases) of £12.2m is down from the £14.3m reported at FY24 year end. It opened 17 new sites in H1, trading from a total of 273 sites at period end.

Mothercare Full Year Results 2024 reported total retail sales of £280.8m, 13% lower YOY, with adj. EBITDA of £6.9m slightly improved +3% YOY (FY23: £6.7m). Its shares had been temporarily suspended due to the delayed publication of its FY24 results.

Victorian Plumbing Full Year Trading Update reported revenue growth of 4% YOY (LFL -1%) with adj. EBITDA in line with expectations. H1 trends continued, with strong order volume growth, +10% YOY, offset by lower AOV due to greater mix of own-brand products. Victoria Plum, acquired in May 2017 contributed £15m of revenue, generating an adj. EBITDA loss of £2m. The Group has taken the decision to close the business and its operations by the end of 2024.

Sosandar H1 Trading Update reported revenue of £16.2m, down 27% YOY (H1 24: £22.2m) attributed to its strategy of less price promotional activity. This was reflected in an improved gross margin of 62.2%, +680bps (H1 24: 55.4%). It has opened its first three own stores in the period, with trading described as 'strong' across all sites. FY25 revenue expectations were guided lower to £40m, with pre-tax profit guidance unchanged.

Angling Direct Half Year Results reported revenue of £45.8m +5.6% with UK sales +6.2% (LFL +1.8%) benefitting from higher footfall and ATV. UK online sales were also +2.8% YOY. In Europe, sales were flat at £2.4m. PBT of £2.3m was +35.7% due to mix-driven improvements in gross margin and operating leverage. No change to full year guidance.

Shoe Zone Full Year Trading Update reported revenue down 2.7% to £161.3m with growth in H1 offset by weakness in H2, where poor weather impacted demand for seasonal ranges. Adj. PBT of 'no less than £9.5m' is 42% lower YOY, impacted by lower sales as well as higher wage, energy and freight costs. Net cash of £3.7m is after £12.3m in capex and £8.0m in dividend distribution.

Kelso Group Update on Investments announced its investment in Selkirk, a single-company acquisition vehicle to target listed, unlisted and divisions of UK businesses.

Theworks.co.uk FY24 Results were in line with expectations, with revenue of £282.6m +0.9% YOY, driven by improved store sales, with online LFL sales 12.4% lower. Adj. EBITDA of £6.0m fell by a third YOY (FY23: £9.0m) due to cost headwinds and operational issues through Christmas peak. No final dividend was proposed. Sales in FY25 YTD were in line with expectations.

Revel collective unveiled its Name Change (previously Revolution Bars Group) aimed at better reflecting the current make-up of the Group which includes Peach Pubs and Founders & Co.

Moonpig Group gave an Update on capital allocation announcing a new dividend policy, targeting dividend cover of 3-4x over the medium term, with a total FY25 dividend of £10m expect to grow thereafter. It also announced commencement of its first buyback programme, returning £25m to shareholders.

Gear4music Half Year Trading Update reported revenue of £61.7m with UK revenue growth of +4% offset by weakness in Europe and ROW, down 9% YOY. Adj. EBITDA expected to be flat YOY at £2.9m. Stronger growth achieved during October FY25 trading YTD, well-positioned and prepared for the upcoming peak seasonal trading period. Full-year outlook remains in-line with consensus market expectations.

Character Group Trading update confirmed trading in line with expectations, despite external challenges including higher cost of living, the surge in freight costs and shipping delays due to reduced capacity. Initial sales of products for the Christmas '24 season are showing encouraging signs. FY24 results will be reported in December.

Virgin Wines announced FY24 results with revenue flat at £59m, but adj. EBITDA up 59% to £2.8m as a result of enhanced margins and operational efficiencies. Strategic initiatives including the launch of Warehouse Wines, a bespoke Vinyard Collection and Australian Five O'clock Somewhere Wine Club launched in the period. The group also recently announced its Strategic Partnership with Ocado.com giving Ocado customers access to a selection of 50 exclusive wines.

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.

London	125 Old Broad Street London, EC2N 1AR Tel: +44 20 3829 5000
Manchester	82 King Street Manchester, M2 4WQ Tel: +44 161 831 1512
Birmingham	3 Brindleyplace Birmingham, B1 2JB Tel: +44 121 231 7210
Bristol	St. Brandon's House, 29 Great George Street, Bristol, BS1 5QT Tel: +44 117 945 3420
Leeds	Royal House, 28 Sovereign Street, Leeds LS1 4BJ Tel: +44 113 394 6600

info@zeuscapital.co.uk
https://zeuscapital.co.uk