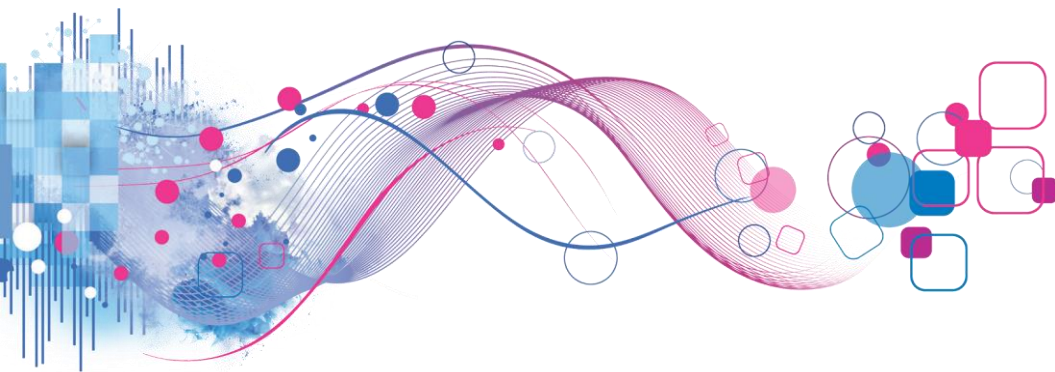


M&A Activity in the Food Retail Sector

Experian Business Research: June 2018



Food Retail M&A

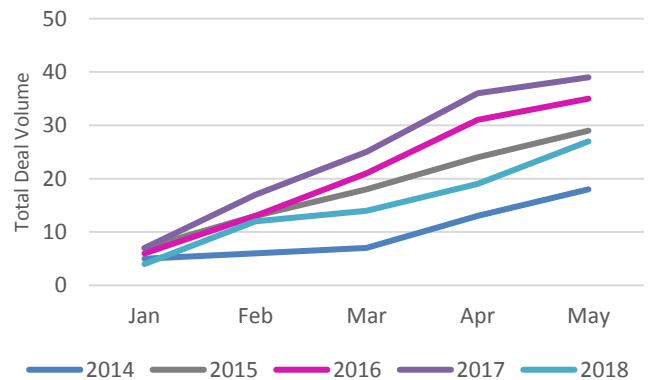
In light of Sainsbury's recently announced merger with Asda - the latest in a string of high profile, high-value transactions that have characterised the UK's M&A market in 2018 and a potentially transformative transaction in the food retail space - we looked at recent deal activity in the sector, along with some key financials and comment from Experian's economics team.

April's deal, the largest on Experian MarketIQ's record, saw Sainsbury's agree terms on a £7.3bn cash and shares transaction that will see US retail giant Walmart take a 29.9% shareholding in the combined firm; just under the threshold that would require it to make a mandatory takeover offer of its own. The takeover counts as the biggest ever deal in the food retailing space, ahead of Walmart's original £6.6bn acquisition of Asda back in 1999.

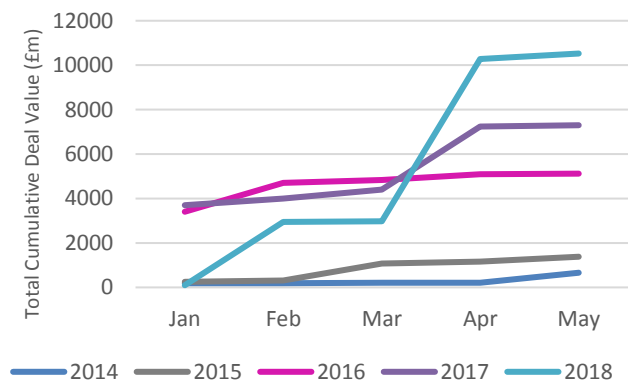
Should it complete, the deal may see the creation of the United Kingdom's largest supermarket group by market share. It was broadly well received by the market and prompted expressions of positive sentiments by several city analysts, although some concern has been expressed about potential implications for suppliers and customers both.

While the volume of M&A in the food retail sector has lagged somewhat behind the previous three years, the Sainsbury's / Asda tie up means that the value of deals so far this year has topped £10bn – in comparison, the total value of food retail M&A for the whole of 2018 was £11.5bn. The acquisition, subject to its approval from competition authorities, looks likely to provoke a wave of further deals in the crowded food retail space as competitors jostle for market space, and we would expect overall value figures in the sector to comfortably outstrip 2017's return as the year progresses.

Volume of deals in the Food Retail Sector
UK, January to May, 2014 - 2018



Value of deals in the Food Retail Sector
UK, January to May, 2014 - 2018



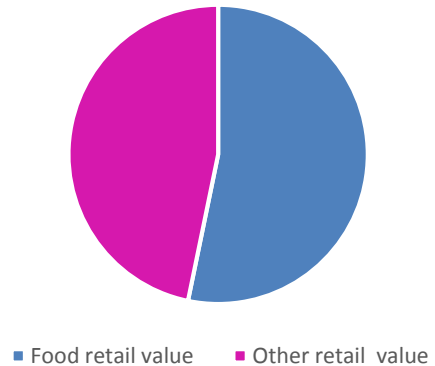
Food Retail M&A

The food retail segment has provided the bulk total M&A value in the retail sector so far this year, despite accounting for less than a quarter of total deal volume. Elsewhere this year, we have seen Blackburn's EG Group Ltd, an owner and operator of petrol forecourt retail convenience stores, expand in the US with a definitive agreement to acquire Kroger Co's convenience store business for around £1.5bn. This came alongside another significant deal in the Netherlands, where EG snapped up NRGValue Retail Nederland for an undisclosed consideration.

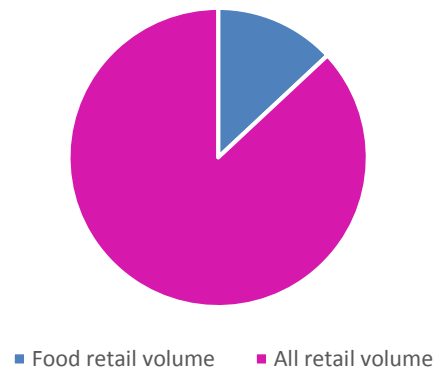
The forecourt retail segment has seen notably brisk activity in 2018, with Clayton Dubilier & Rice-backed Scimitar Topco's £1.2bn purchase of MRH GB Ltd, which owns and operates a group of petrol service stations with convenience stores, representing another high-value deal pushing values to record levels.

Meanwhile in the mid-market, Ocado Group completed a £143m rights issue in support of its global partnerships, technology and software strategy – Ocado has partnered with Swedish supermarket ICA, Canadian firm Sobeys and French retailer Casino so far this year. Finally, smaller deals in the food retail sector included grocery wholesaler Bestway's £7m acquisition of collapsed retailer Conviviality, the company behind the Bargain Booze and Wine Rack chains, as part of a pre-pack administration process.

Food Retail M&A's Share of All Retail M&A - Value
UK, January to May 2018



Food Retail M&A's Share of All Retail M&A - Volume
UK, January to May 2018



Food Retail M&A

Top Ten Deals in the Food Retail Sector UK, All Time

Date	Target	Bidder	Value (£m)
30/04/2018	Asda Stores Ltd	J Sainsbury Plc	7,300
14/06/1999	Asda Group Plc	Wal-Mart Stores Inc	6,597
07/09/2015	South Korean Operations of Tesco Plc	Consortium led by MBK Partners Ltd	4,240
27/01/2017	Booker Group Plc	Tesco Plc	3,700
09/01/2003	Safeway Plc	Wm Morrison Supermarkets Plc	3,000
16/07/2008	Somerfield Ltd	Co-Operative Group Ltd	1,565
05/02/2018	Kroger's Convenience Store Business	EG Group Ltd	1,529
12/02/2012	Iceland Foods Ltd	Oswestry Acquico Ltd	1,450
25/04/2007	J Sainsbury Plc	Three Delta	1,400
26/03/2004	JS USA Holdings Inc (US Operations of J Sainsbury Plc)	Albertsons Inc	1,364

Biggest Companies in the Food Retail Sector UK, May 2018

Company	Market Share	Total Annual Sales (£m)	Land & Buildings (£m)	Number of Employees
Tesco	28%	55,917	15,595	464,520
J Sainsbury	16%	26,224	7,951	30,116
Asda Stores	15.6%	21,408	3,531	104,680
WM Morrison Supermarkets	10.6%	16,316	6,383	112,365
Aldi Stores	7%	8,744	2,941	30,116
Co-operative Group	5.8%	7,054	n/a	n/a
Waitrose	5.3%	6,226	1,861	52,590
Lidl	5.1%	5,300	n/a	22,000
Iceland	2.2%	2,792	71	22,208
Ocado Group	1.2%	1,463	93	12,233

Food Retail M&A

UK retail sales – June release

June's release from the Office for National Statistics (ONS) showed that retail sales volumes increased by 1.3% month-on-month in May. This underlined growth in volumes in the year to February – May of 2.1%, the largest increase since June last year.

Encouragingly, the breadth of the upturn amongst the various store types was relatively widespread as shown in the table below:

Volume change (%)	April - May	March - May vs previous 3 months	March 2018 - May 2018 vs March 2017 - May 2017
Predominantly food stores	1.1	1.3	0.9
Department stores	0.9	-0.2	1.6
Clothing & footwear stores	1.7	0.4	-2.0
Household goods stores	0.5	3.8	3.2
Other stores	0.0	-1.5	3.3
Total retail volumes	1.3	0.9	2.1
Predominantly food stores	1.1	1.3	0.9

Today's Key features of performance among the various sectors are:

- Predominantly food stores sales volumes declined on the annual three-month measure between July last year and March this year. In the same period food inflation averaged 3.5%, compared to -1.2% in the same period a year earlier. Food inflation has subsequently eased in line with diminishing import cost pressures, coming in at 2% in May, and this appears to have underlined an uptick in spending. Feedback from retailers suggested that a sustained period of good weather and Royal Wedding celebrations also encouraged spending on food.

- Department stores shared in the upturn in volumes in May, though the underlying trend in the sector remains one of weakness, as highlighted by the decline in the three months to March – May. Aside from the constraining impact of high inflation that held back volumes last year, there appears to be an underlying change in shopping habits that is holding back growth. The recently announced closure of some major high street stores is testimony to this.

- Clothing & footwear stores sales volumes were acutely impacted by rising inflation over the past year. This pressure is now easing, but it is too early to tell whether or not the strong gains in the last two months represent a return to stability after a long period of weakness, going back even before inflation took hold in the latter half of 2016.

- Household goods stores: A strong upturn in volumes

has emerged in the last two months, following a very weak first quarter performance. The GFK major purchases index has been positive in recent months, whereas the overall confidence index remains deeply in negative territory. This sentiment appears to be driving superior performance in the sector relative to most other store types.

- Other stores sales volume movements have been sporadic of late. The sector continues to be the strongest performer on the annual measure, although a downward trend in volumes is quickly eroding its lead.

While the latest set of retail sales data is encouraging, underlying conditions for UK retailers remain challenging. With inflation flat-lining at 2.4% in May, and regular pay growth easing to 2.5% in the year to February – April household budgets remain significantly constrained. These pressures should slowly ease through the remainder of the year, however there is little scope for a spending splurge as the savings rate hovers just above historic lows and consumer credit growth is near all-time highs. Furthermore, the exceptionally good weather, and in the case of the food sector the royal wedding undoubtedly played some part in boosting sales in May. This is expected to unwind to some degree in the coming months. Given this backdrop, a more sustained return to buoyancy in sales volumes is unlikely to materialise this year.

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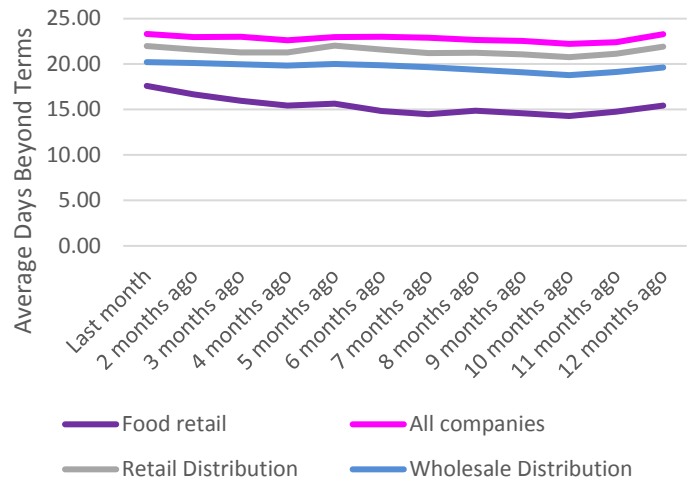
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Days beyond terms (DBT) is a commonly used business credit term that indicates how long a business has taken to pay its invoices beyond the agreed payment terms. Prompt payment of invoices is one of the biggest problems that SMEs face. Just over a half of UK SMEs have to wait 30 days or more beyond their agreed payment days for an invoice to be paid with some of the worst being up to 100 days. The knock on effect of this is that business owners have to make tough decisions to get through the month and it can make managing their cash flow difficult. The longer it takes for them to pay their bills to you, the more it's costing you money and eroding into your profit margin.

Food retail as a sector seems to pay its bills quicker than many similar industries. Considering the UK average for Limited companies is 23 days beyond terms, food retail sits at under 18 despite a slight increase over recent months; the retail sector as a whole pays 22 days beyond terms.

Average Days Beyond Terms – Food Retail and other sectors

UK, Last Twelve Months



Food Retail M&A

Top Advisers to Food Retail M&A

UK, January 2014 – May 2018

Ranking	Legal adviser	Volume ¹	Value (£m)
1	Addleshaw Goddard	13	404
2	Shoosmiths	10	186
3	Hill Dickinson	10	39
4	Clifford Chance	9	6,777
5	CMS	9	1,135
6	DLA Piper	8	2,244
7	Pinsent Masons	8	562
8	Freeths	8	65
9	DWF	8	38
10	Mills & Reeve	8	22

Ranking	Financial adviser	Volume ¹	Value (£m)
1	Rothschild & Co	10	8,740
2	EY	10	2,161
3	BDO	10	107
4	Grant Thornton	9	7
5	Bank of America Merrill Lynch	7	6,452
6	PwC	7	3,279
7	Morgan Stanley	6	11,040
8	Goldman Sachs	6	4,980
9	Lazard	6	2,660
10	KPMG	6	183

¹Where two advisers are tied, transaction deal values will constitute which of the advisers are ranked higher.

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For information about the methodology used to create this report, or for any further information, please contact us at cfw.research@experian.com.

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