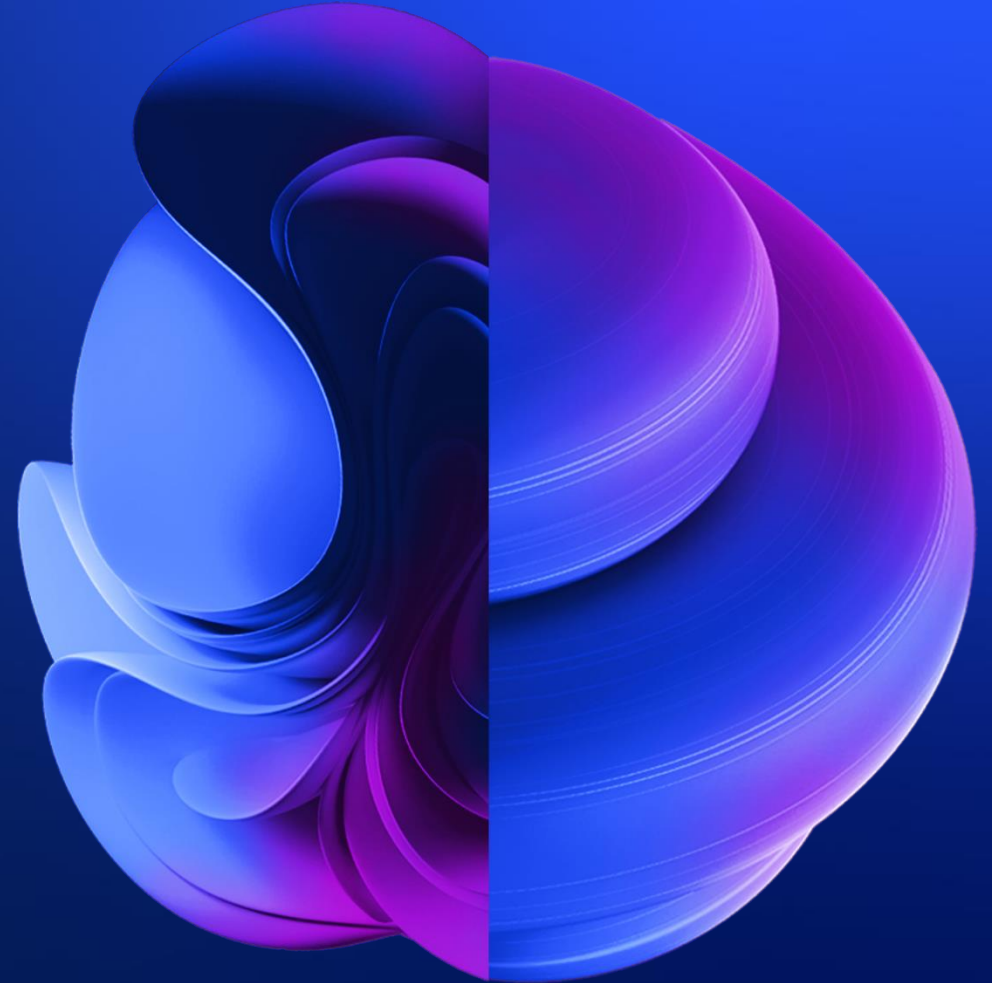


McKinsey
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McKinsey Value Intelligence

Quarterly Perspective on Value Creation in European Consumer & Retail

1st Quarter – Retail Issue | Winter 2024



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Macroeconomic context

Value creation in retail

Spotlight perspective – Who benefitted from inflation?

Spotlight perspective – Asia retail inspiration (the emergence of the “Zero Consumer”)

Global Summary

As the year 2023 ended, inflation had come down, though long-term interest rates remain high despite expectations. Meanwhile, consumers are increasingly concerned and therefore 2024 and its economic path remains uncertain.

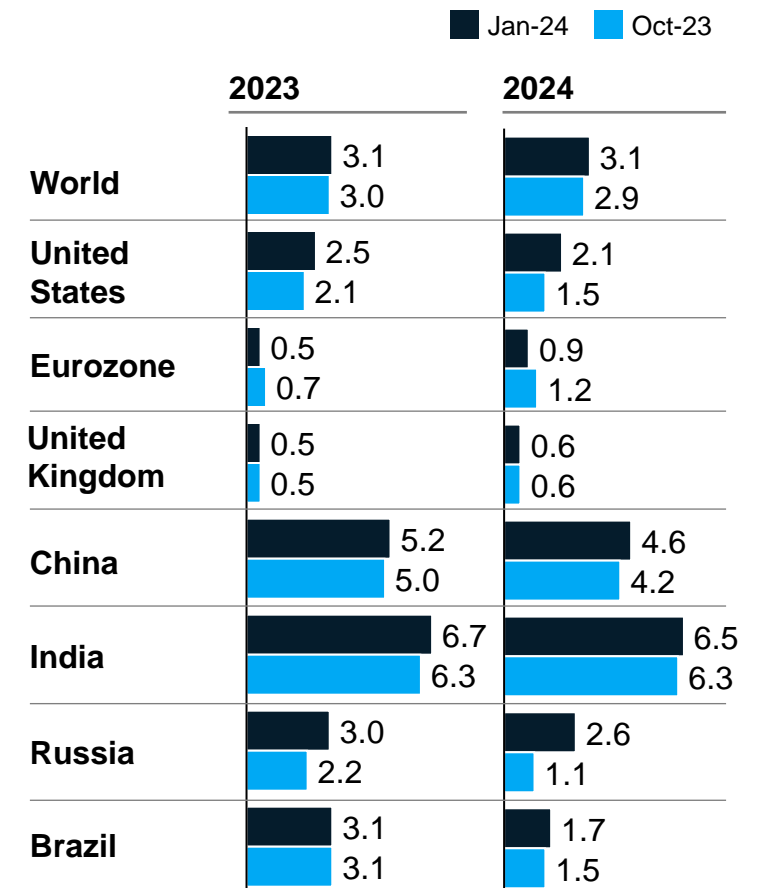
Read the full report [here](#)

The latest McKinsey Global Survey on economic conditions shows that geopolitical instability is seen as the top threat to economic growth. Earlier optimism amongst executives about the global economy, including their own companies' workforce growth and profits, has receded somewhat. Nevertheless, respondents show a more positive view about their own economies.

At the same time, concerns over high interest rates have almost halved from earlier in 2023: 18% of respondents now cite inflation as a risk to growth compared to 34% in March. In the latest survey, only 32% of respondents expect a rate hike in the next six months (versus 60% in March). 40% believe that their country's rates will hold steady.

Real GDP growth: IMF Projections

Percent

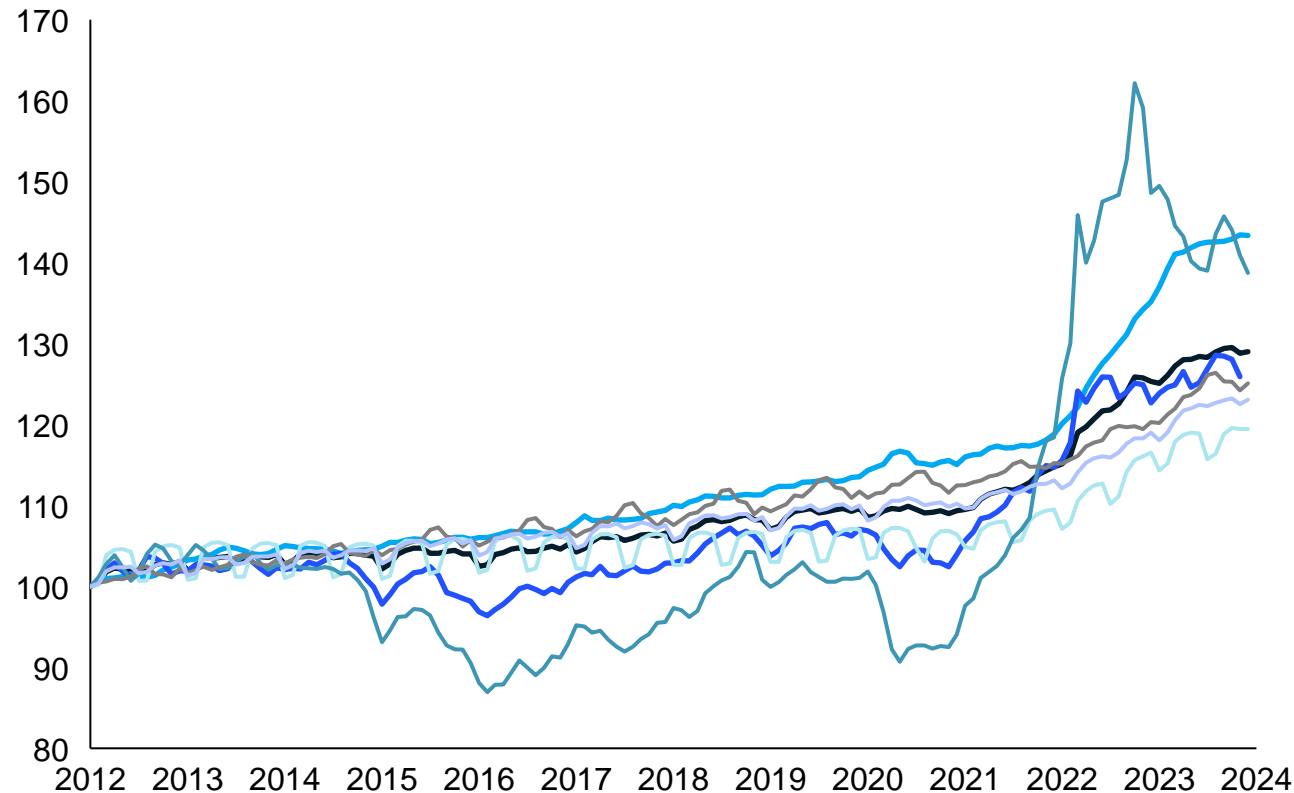


Inflation ended at 2.9% y-o-y in December driven by decreasing energy prices, while food and beverages price inflation remains high

Despite December increase, overall disinflationary process remains in place

Harmonized Index of Consumer Prices (Eurozone)

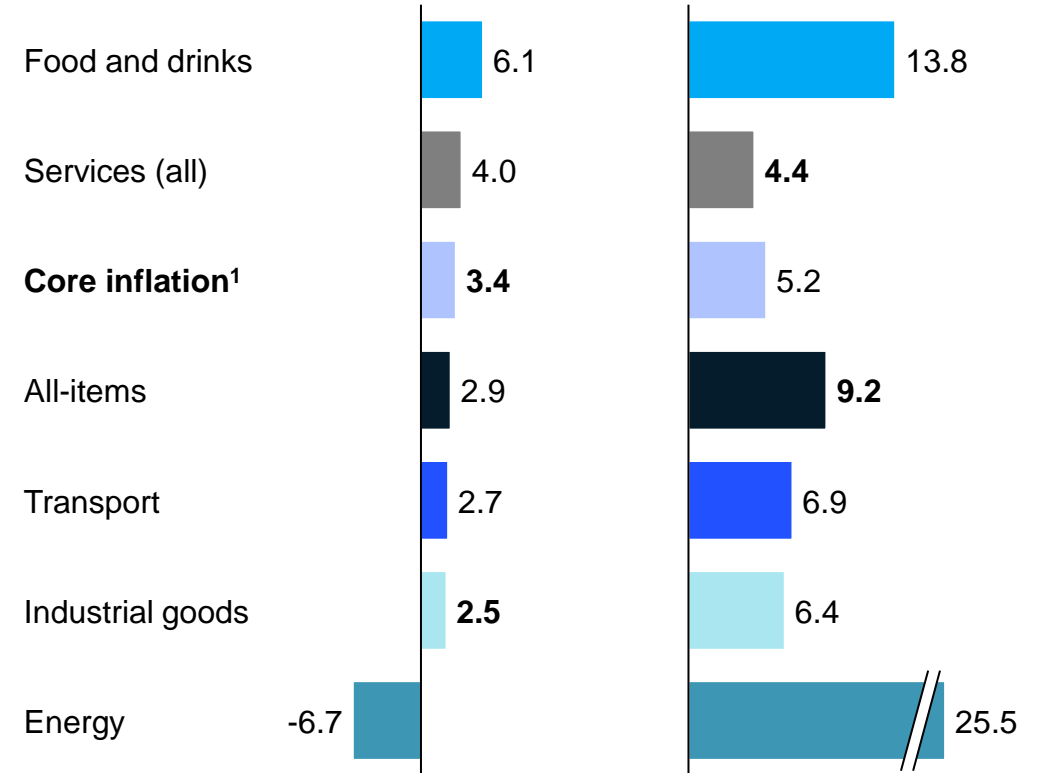
Index (Jan 2012=100%)



Change (%)

Dec 2022 – 2023

Dec 2021 – 2022



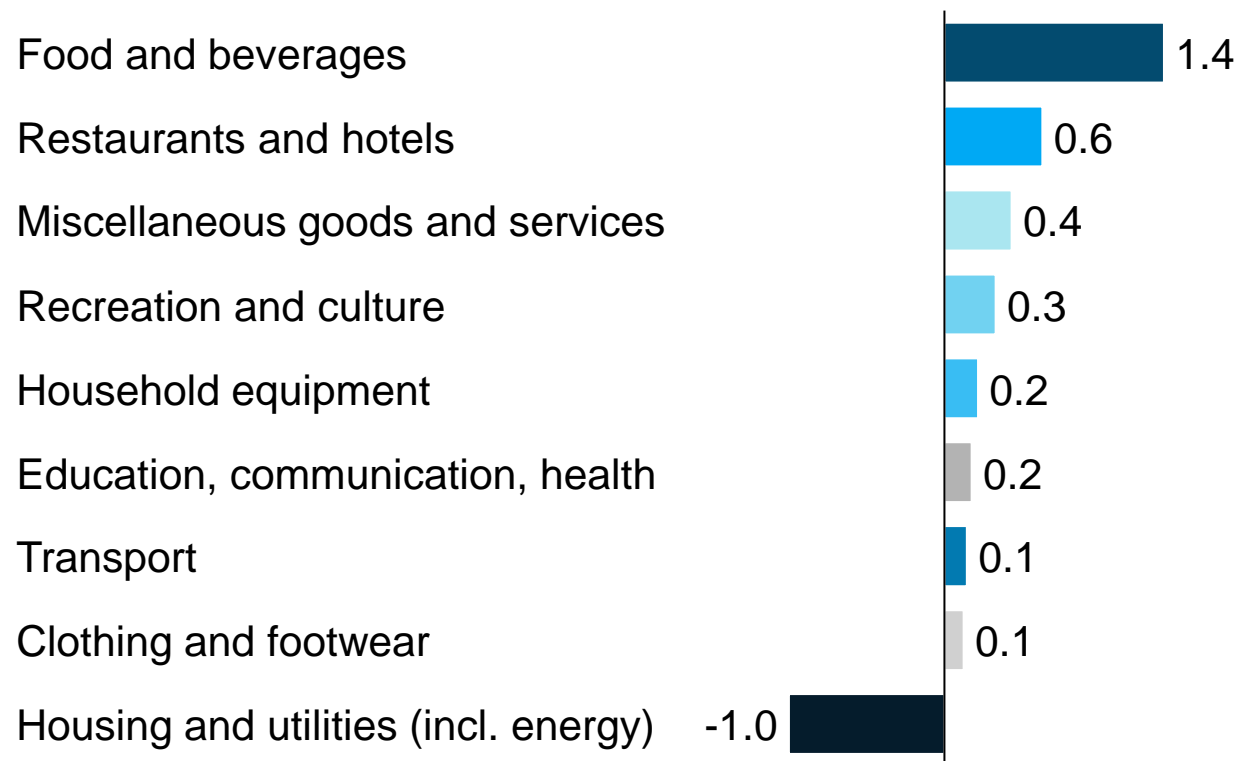
1. Overall index excluding food, energy, alcohol and tobacco

Food and beverages price dynamics remain the key contributor to Eurozone inflation

Food and beverages prices are continuing to increase at higher levels than anticipated

Contribution to Eurozone annual inflation of 2.9%

Percentage points contribution



Headline inflation increased to 2.9% year-on-year in December versus 2.4% in November.

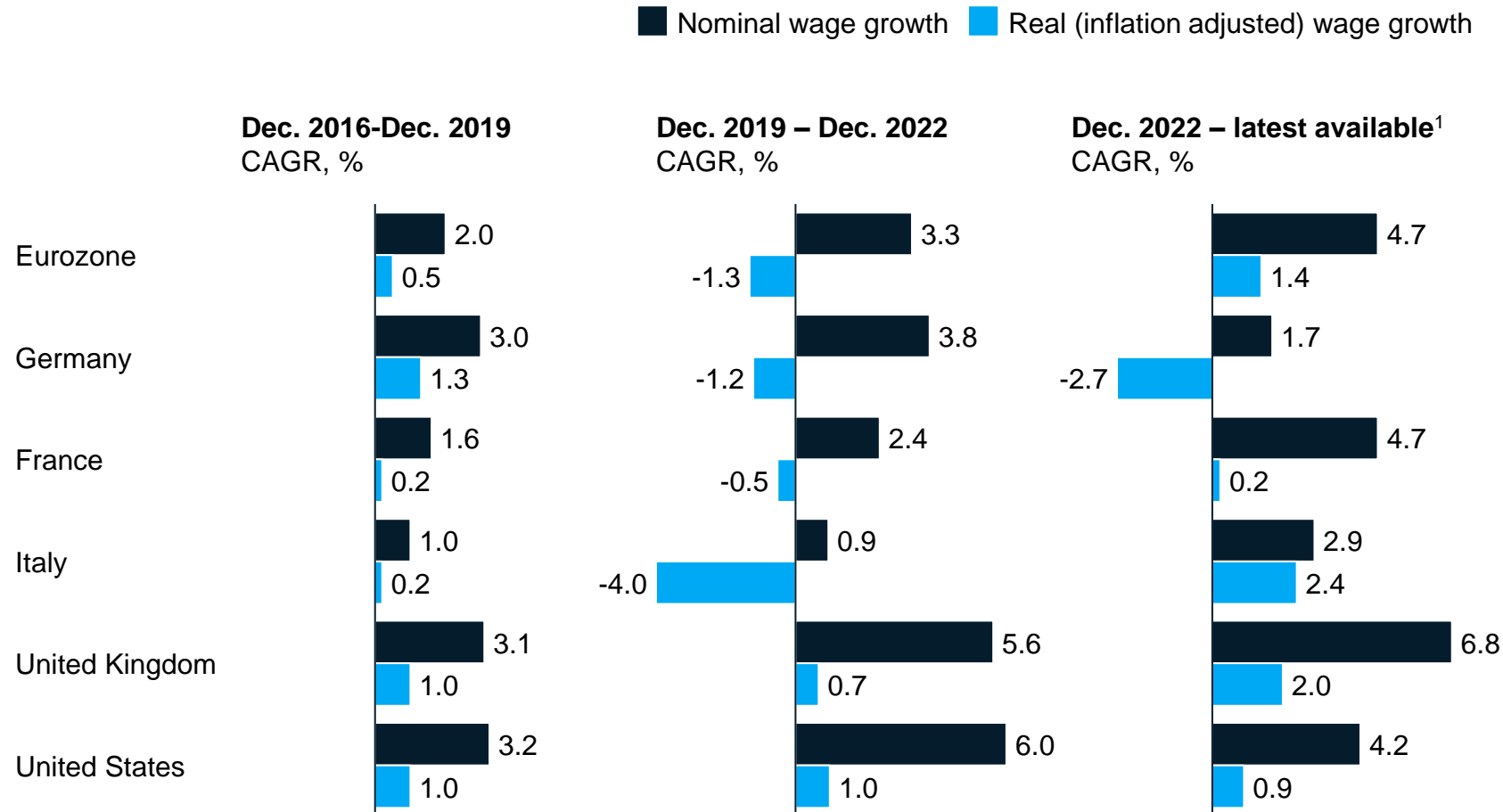
Energy prices declined; services and food inflation have eased more gradually, while core inflation was still elevated at 3.4%.

According to the ECB, inflation is likely to rise temporarily in the near-term before gradually dropping again: headline inflation is projected to be 5.4% in 2023, 2.7% in 2024, and 2.1% in 2025.

On December 14, the ECB decided to continue balance sheet normalization and keep key interest rates unchanged. Looking ahead, there is uncertainty over when rates will come down.

Eurozone nominal wage growth has been high and started to marginally beat inflation in 2023

Real incomes are barely growing despite inflation coming down



5.3%

ECB estimate of nominal wage growth for 2023² in Eurozone

With **CPI estimate at 5.4%** households purchasing is expected to weaken

1. US, Italy: November 2023; UK: October 2023; Eurozone, Germany, France: quarterly data through 2023:Q3

2. ECB forecasts as of December 2023

Note: Aggregate wages capture: Italy, France, Germany, Eurozone - total economy; the UK & the US - private sector

Eurozone consumer confidence improved in November-December amid easing inflation expectations and real wage growth prospects

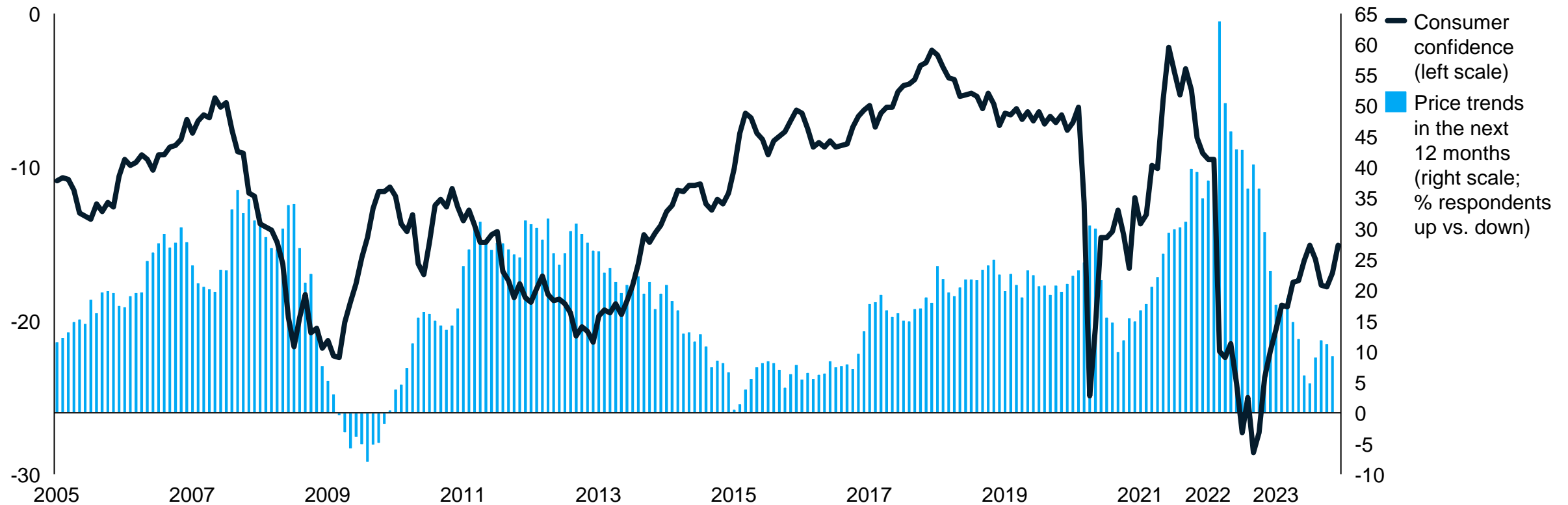
More optimism on real earnings amid weakening inflation does not necessarily translate into higher spending

Consumer confidence indicator

Percent balance, SA, through December 2023

Consumer expectations of price trends in the next 12 months¹

Percent balance, SA, through November 2023



1. Based on question: "By comparison with the past 12 months, how do you expect that consumer prices will develop in the next 12 months?". The result is calculated as difference in percent shares of answers: $B = (MM + \frac{1}{2}M) - (\frac{1}{2}P + PP)$; where MM = increase more rapidly; M = increase at the same rate; P = stay about the same; PP = fall

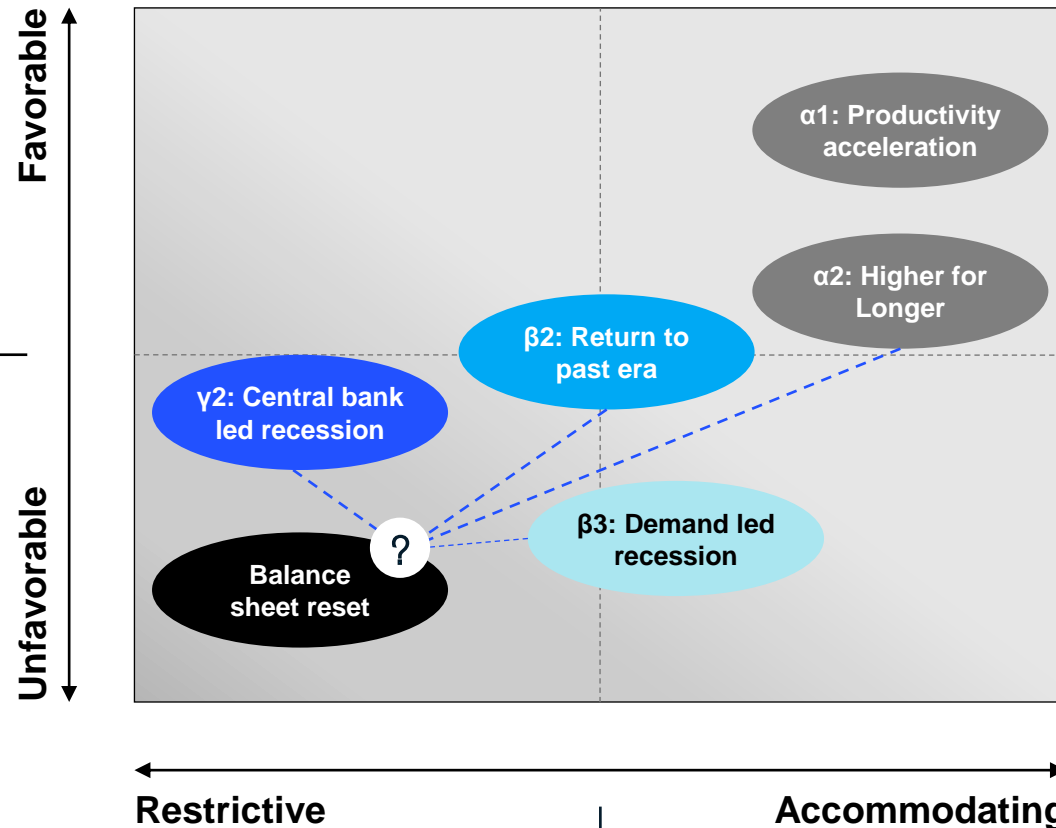
An uncertain 3-5-year macroeconomic outlook that critically depends on forward-looking policy choices and structural forces

McKinsey Macro & Markets Scenarios, January 2024

Structural forces

The forces that promote or constrain sustainable growth and shared prosperity, and are beyond the direct control of policy

- Macro uncertainty
- Geopolitical uncertainty and global institutions
- Technological changes
- Energy systems
- Demographics



Policy choices

The fiscal, monetary and regulatory policy choices that create the local conditions for prosperity within the global economic environment

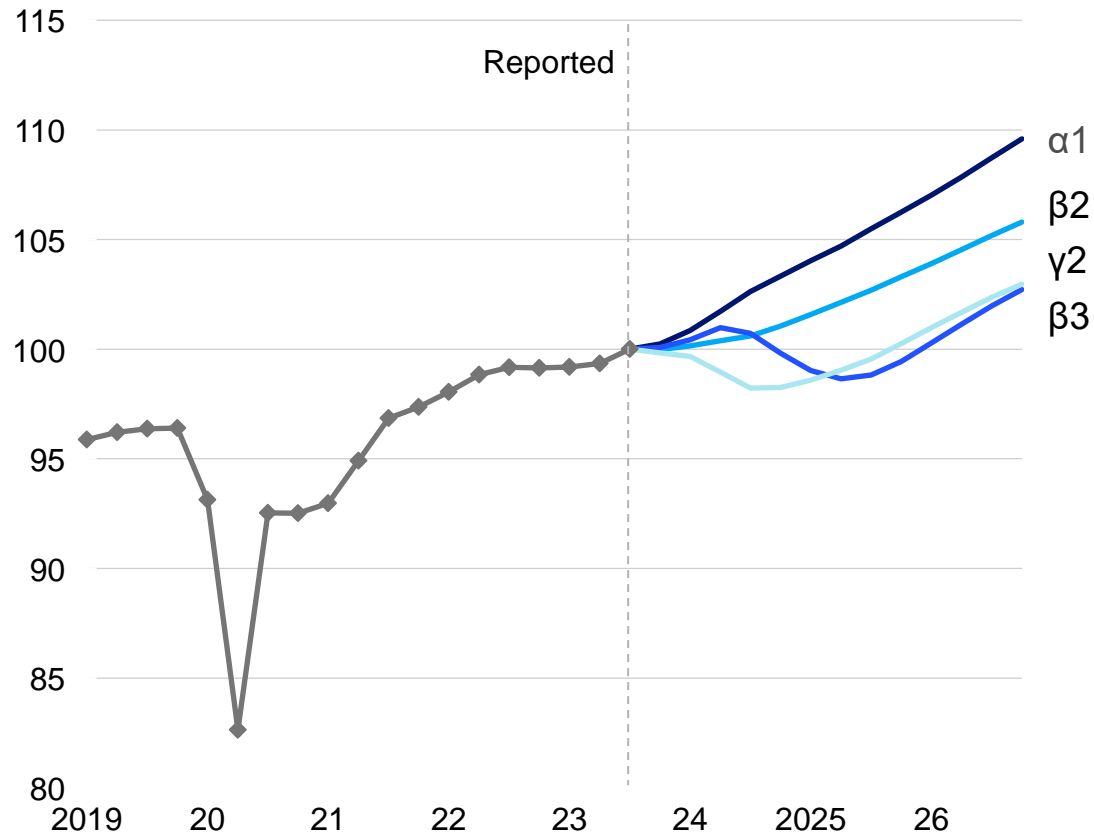
- Government spending and taxes
- Business regulations & legal frameworks
- Interest rates and financial conditions

Eurozone GDP Growth

McKinsey Macro & Markets Scenarios, January 2024

Real GDP

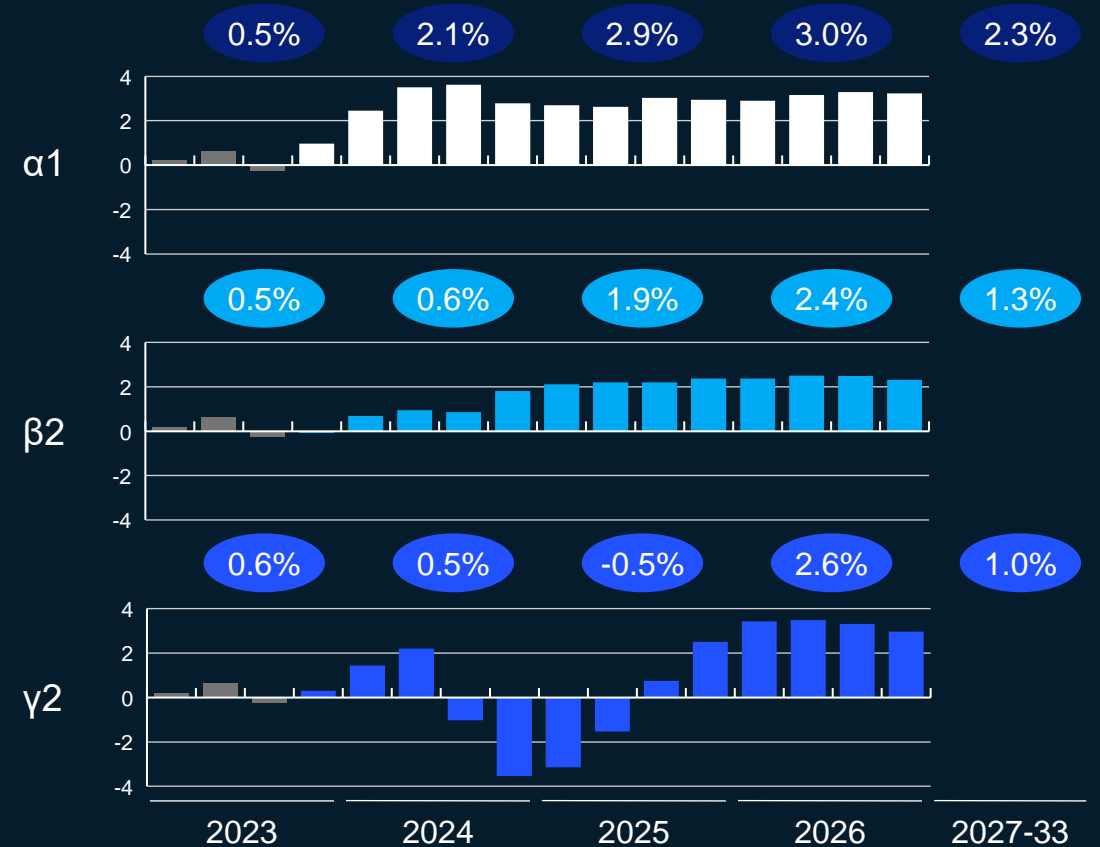
Indexed, 2023 Q2=100



Source: National statistics agencies; McKinsey analysis, in partnership with Oxford Economics

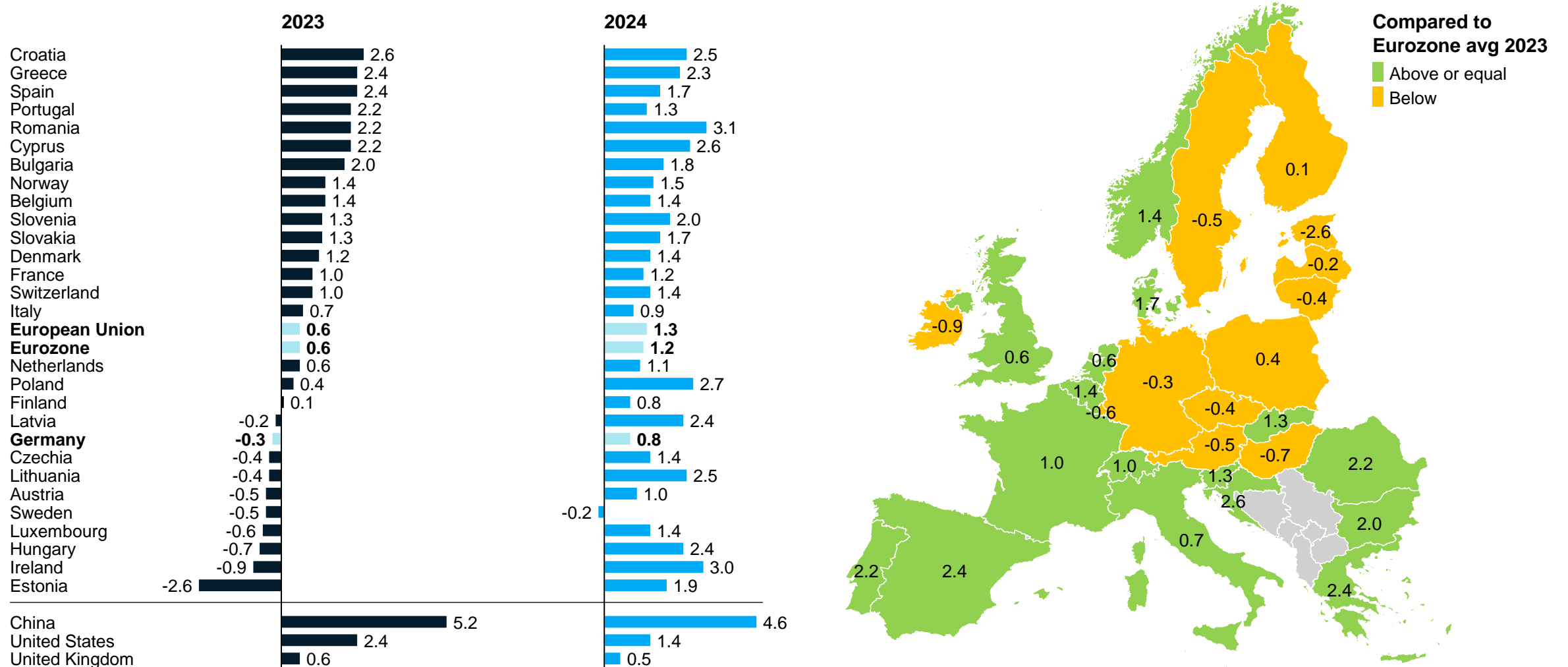
Real GDP

Percent change, quarterly, annual, and CAGR



Pessimism about German GDP drags down overall European GDP outlook; more optimistic forecasts for the South of Europe

Forecasts for real GDP growth, 2023 and 2024, Percent ca¹



1. ca: calendar adjusted data

Real Disposable Income



Real disposable income growth has slowed down due to high inflation and despite a tight labor market. Unemployment rates have been close to record lows, which supported resilient nominal wage growth. However, significant divergence between countries persists, with harmonized unemployment rates at 12% in Spain, and at 3% in Germany.

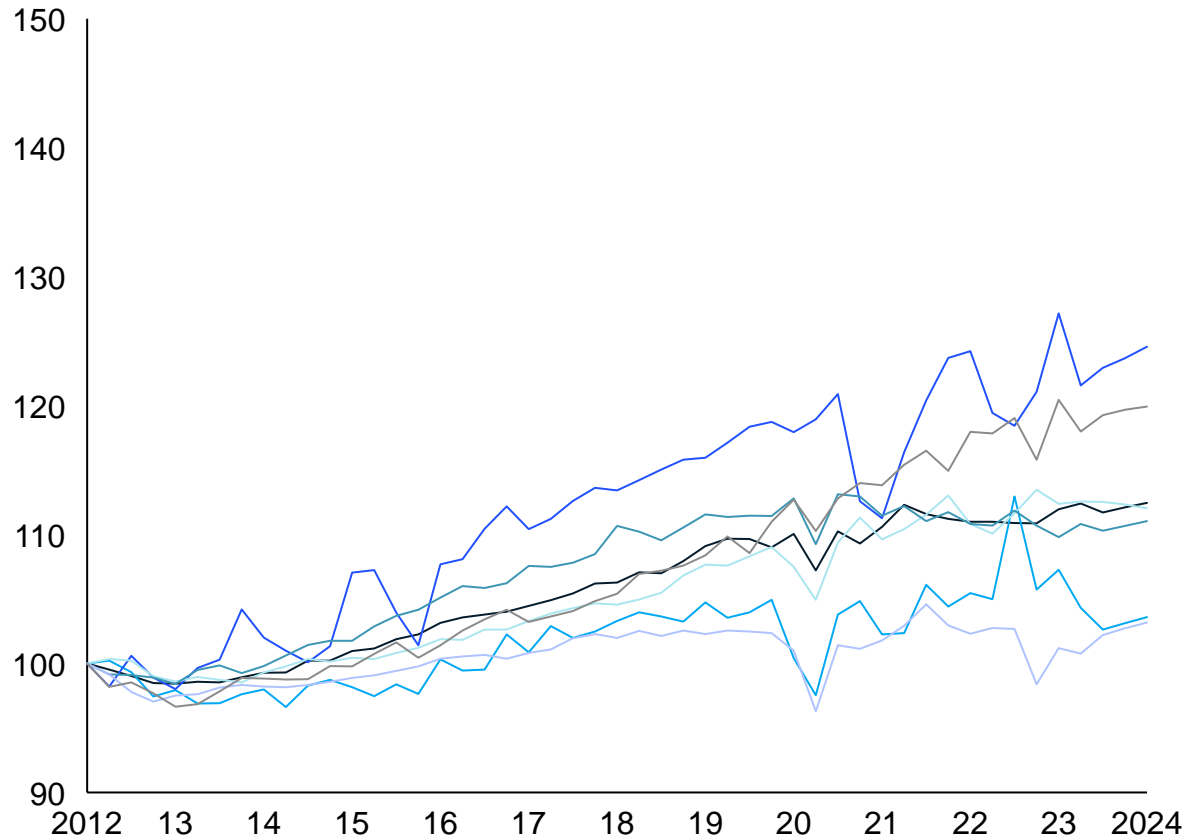
Real incomes are expected to pick up more forcefully along with easing inflation, as nominal wage growth has started to beat inflation. On the other hand, companies' employment expectations worsened, which could be a worrying signal that the labour market is starting to show some signs of contraction.

Real disposable income (1/2)

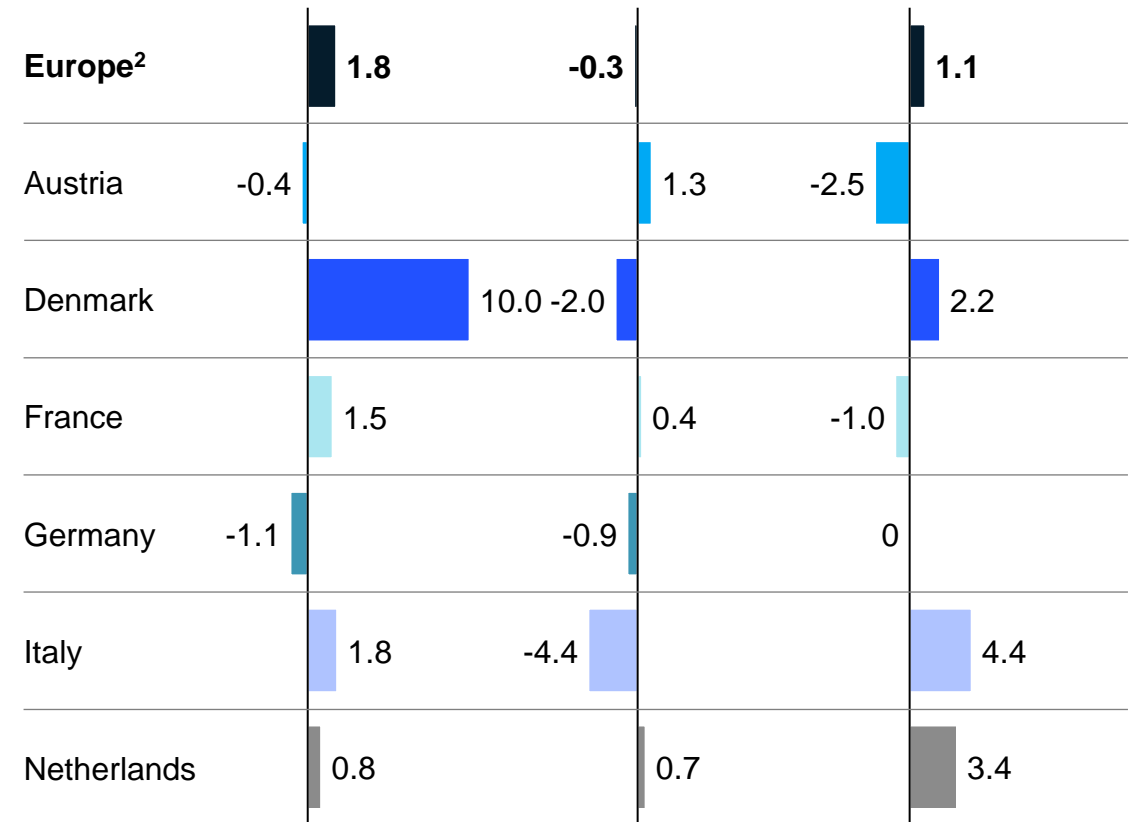
High inflation has impacted real income across most parts of Europe

Disposable income, real¹

Index (2012 Q1=100), Quarterly



| | Change (%) Q4 20 - Q4 21 | Change (%) Q4 21 - Q4 22 | Change (%) Q4 22 - Q4 23 ² |
|--|-----------------------------|-----------------------------|--|
|--|-----------------------------|-----------------------------|--|



1. Eurozone, Austria, Denmark, Italy, Netherlands: data for Q3 2023 estimated by Oxford Economics

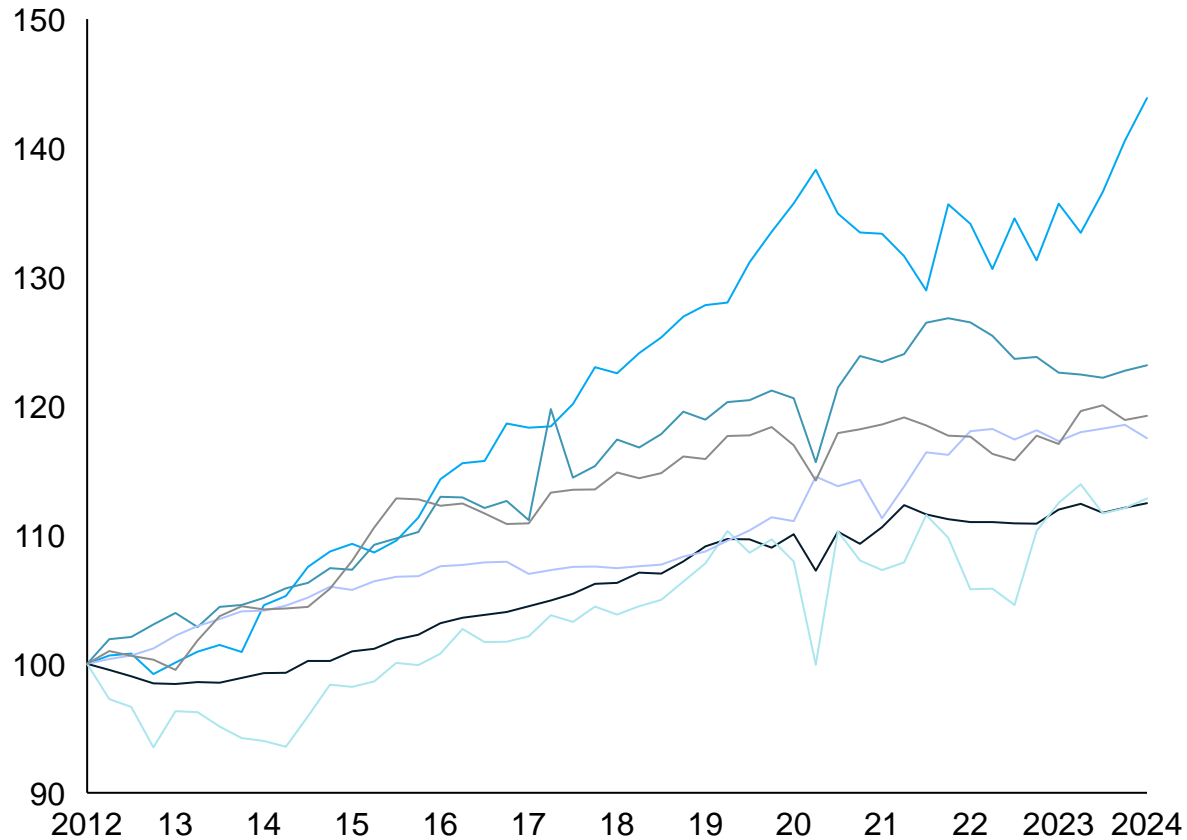
2. All European Union Member States in the euro area

Real disposable income (2/2)

High inflation has impacted real income across most parts of Europe

Disposable income, real¹

Index (2012 Q1=100), Quarterly



| | Change (%) Q4 20 - Q4 21 | Change (%) Q4 21 - Q4 22 | Change (%) Q4 22 - Q4 23 ³ |
|---------------------|-----------------------------|-----------------------------|--|
| Europe ² | 1.8 | -0.3 | 1.1 |
| Poland | 1.7 | -3.2 | 7.1 |
| Russia ³ | 0.6 | -0.2 | 0.9 |
| Spain | 1.6 | 0.5 | 1.6 |
| Sweden | 2.4 | -2.4 | -0.9 |
| Switzerland | 1.7 | 1.7 | 0.4 |
| United Kingdom | -0.4 | 0 | 1.0 |

1. Eurozone, Poland, Spain, Sweden, Switzerland, the UK: data for Q3 2023 estimated by Oxford Economics; Russia – not seasonally adjusted

2. All European Union Member States in the euro area

3. Index data for Russia not available

Consumer Confidence



Over the last three months, consumer confidence has mildly recovered among European households as inflation has eased. In addition, real incomes showed growth and started to marginally beat inflation, further supporting consumer confidence.

Consumers' biggest concerns include household financial health driven by a rapid increase in interest rates, particularly affecting mortgage and consumer credit rates.

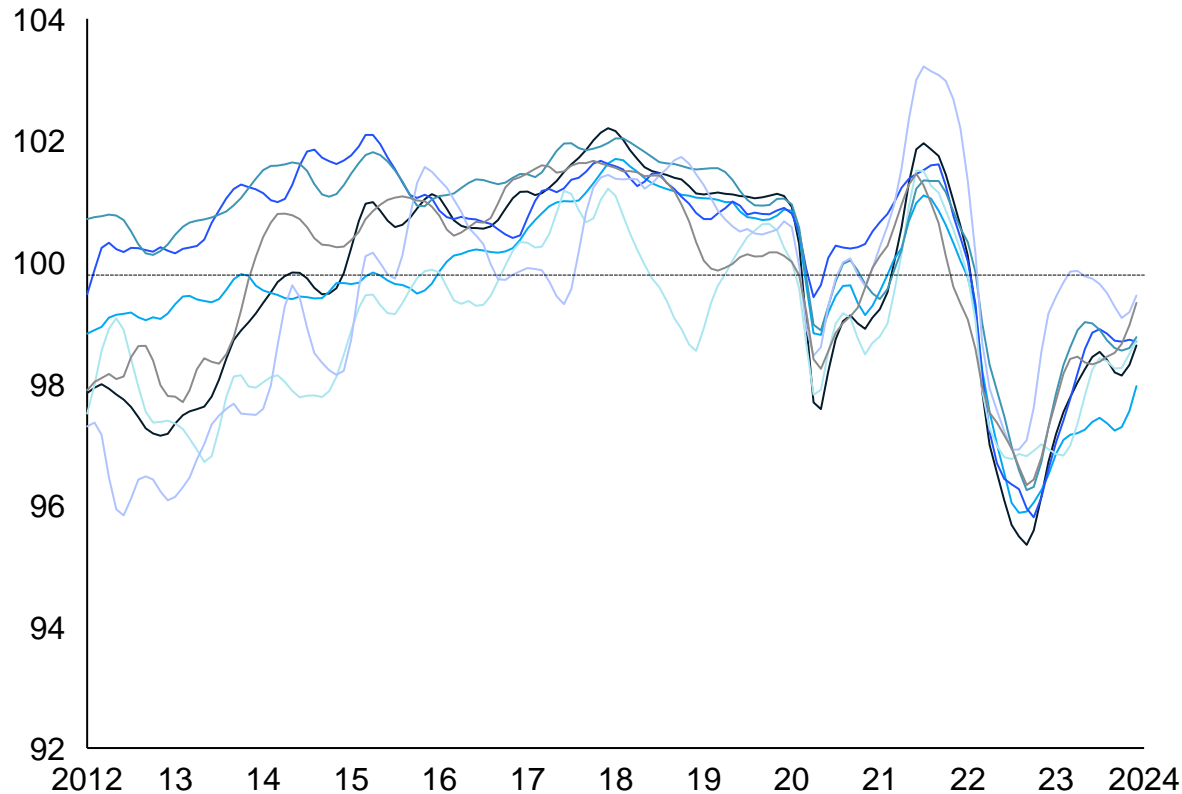
Even though countries have reported improved conditions, consumer confidence data suggests that consumers are cautious and prefer saving over increasing consumption.

Consumer Confidence (1/2)

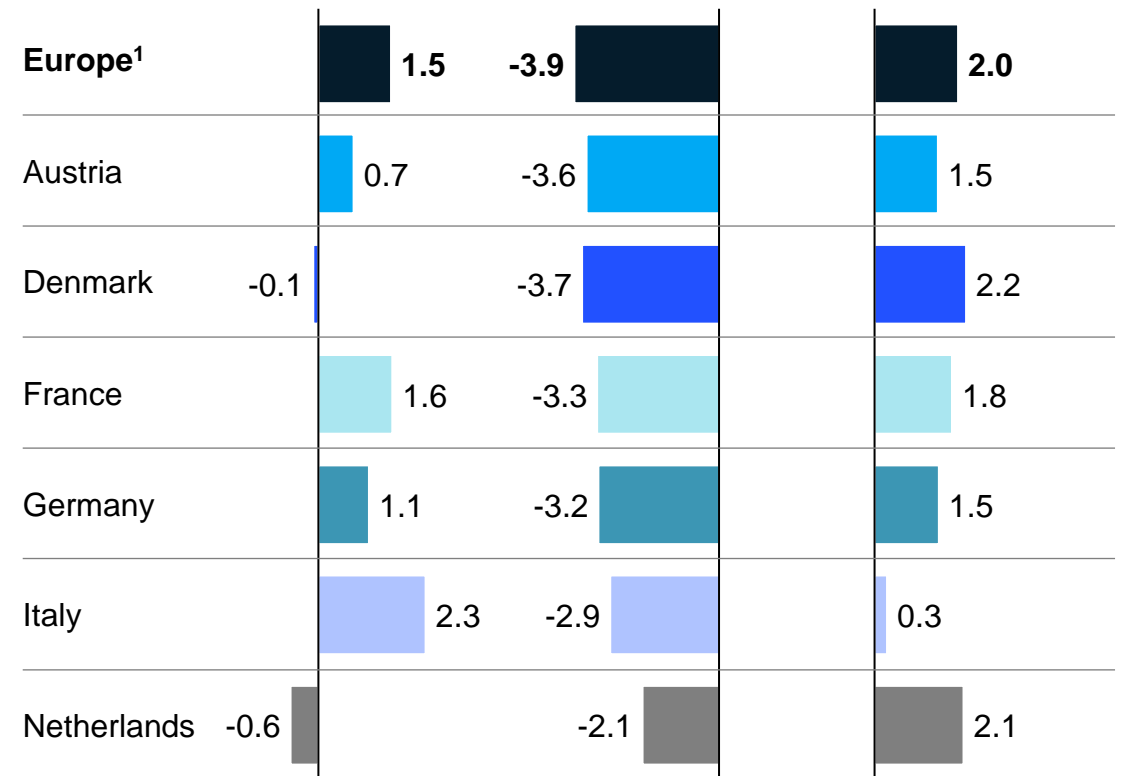
Consumer confidence has bounced back in most European countries but remains well below historical averages

Consumer Confidence

Index, Monthly



| | Change (%) Dec 20 - Dec 21 | Change (%) Dec 21 - Dec 22 | Change (%) Dec 22 - Dec 23 |
|--|-------------------------------|-------------------------------|-------------------------------|
|--|-------------------------------|-------------------------------|-------------------------------|



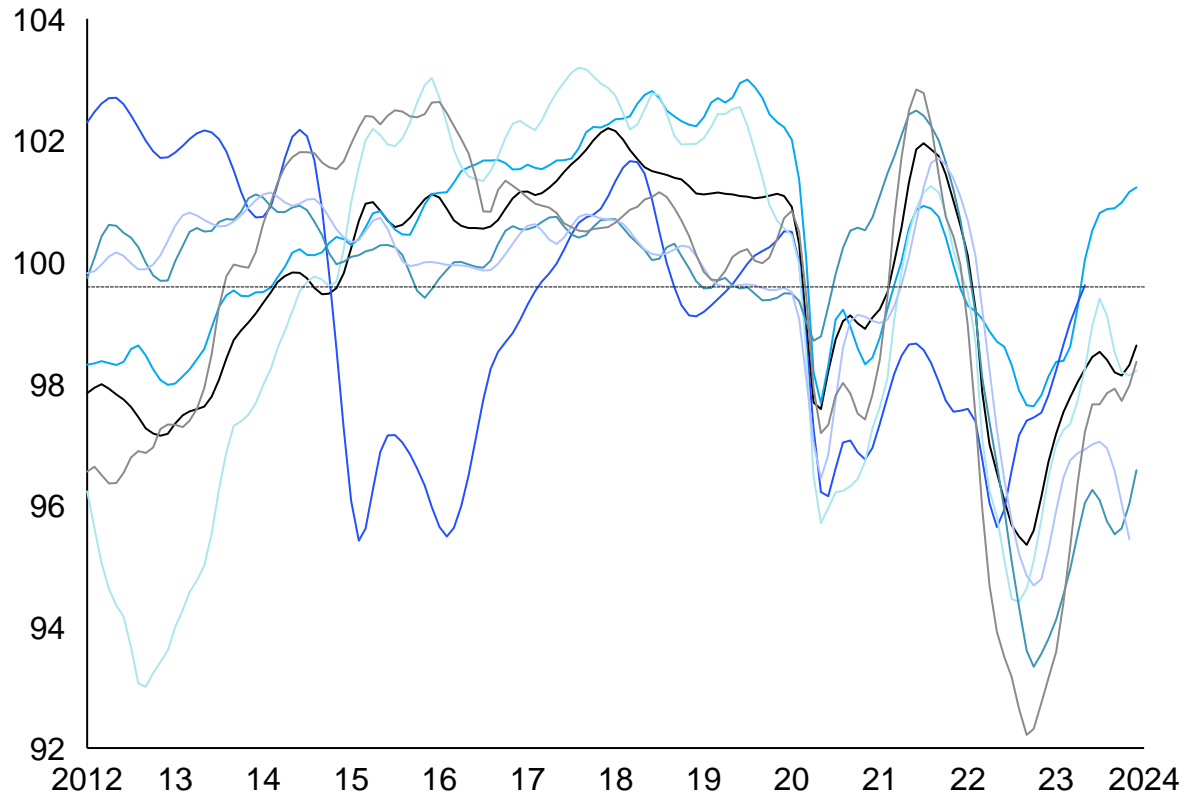
1. All European Union Member States in the euro area

Consumer Confidence (2/2)

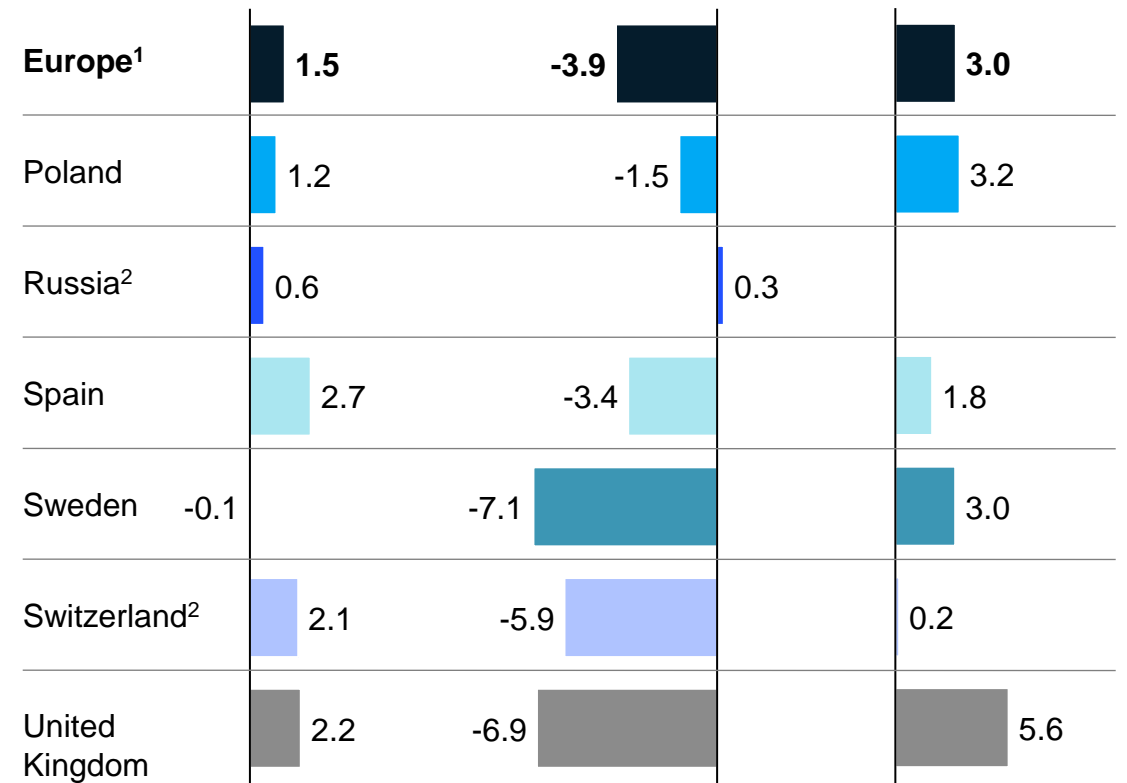
Consumer confidence has bounced back in most European countries but remains well below historical averages

Consumer Confidence

Index, Monthly



| | Change (%) Dec 20 - Dec 21 | Change (%) Dec 21 - Dec 22 | Change (%) Dec 22 - Dec 23 |
|--|-------------------------------|-------------------------------|-------------------------------|
|--|-------------------------------|-------------------------------|-------------------------------|



1. All European Union Member States in the euro area 2. Until Nov 2021

Private Consumption



The Eurozone's real private consumption declined by 0.4% in Q3 2023 (year-over-year, adjusted for inflation) after positive readings of 0.6% in Q2 and 1.4% in Q1. In terms of sequential growth, consumption recovered to Q4 2019 levels already in Q3 2023 and since then essentially remains stagnant.

There is some variation between countries, with consumption expanding at the highest rate in Ireland and Croatia. Of the largest European economies, France and Spain experienced growth while Italy was close to stagnation. By contrast, biggest declines were observed in Sweden (for the 2nd time in a row) and Germany.

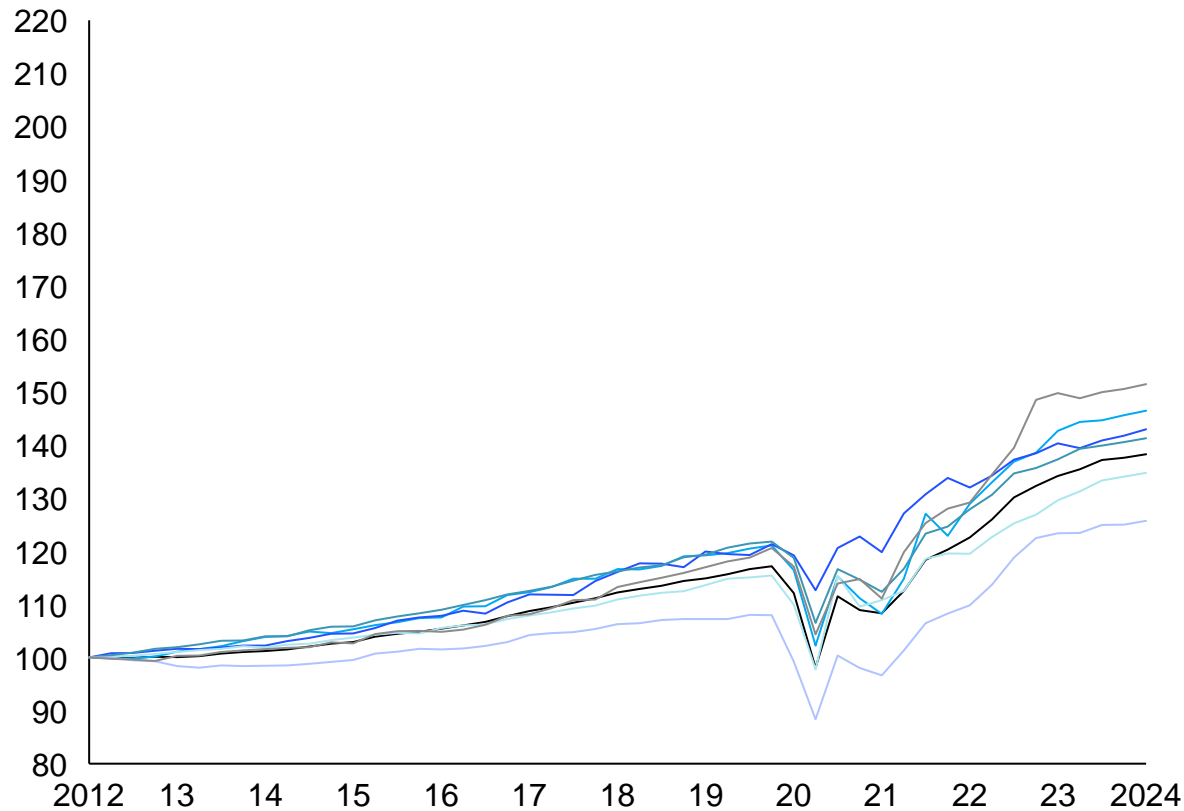
Over the past years factors weighing on consumption have been intertwined – from elevated inflation squeezing real incomes to increasing interest rates limiting households' access to credit.

Private Consumption (1/2)

Nominal consumption slowed in the last quarter of 2023, while real consumption remained either stable or declined

Private Consumption

Nominal, Local Currency, Index (Q1 2012 = 100)



| | Change (%) Q4 20 - Q4 21 | Change (%) Q4 21 - Q4 22 | Change (%) Q4 22 - Q4 23 |
|---------------------|-----------------------------|-----------------------------|-----------------------------|
| Europe ¹ | 10.6 | 9.8 | 4.0 |
| Austria | 10.6 | 12.8 | 5.1 |
| Denmark | 9.1 | 3.4 | 2.4 |
| France | 9.6 | 5.6 | 5.7 |
| Germany | 8.7 | 8.8 | 3.6 |
| Italy | 10.4 | 13.0 | 2.1 |
| Netherlands | 11.5 | 16.0 | 1.4 |

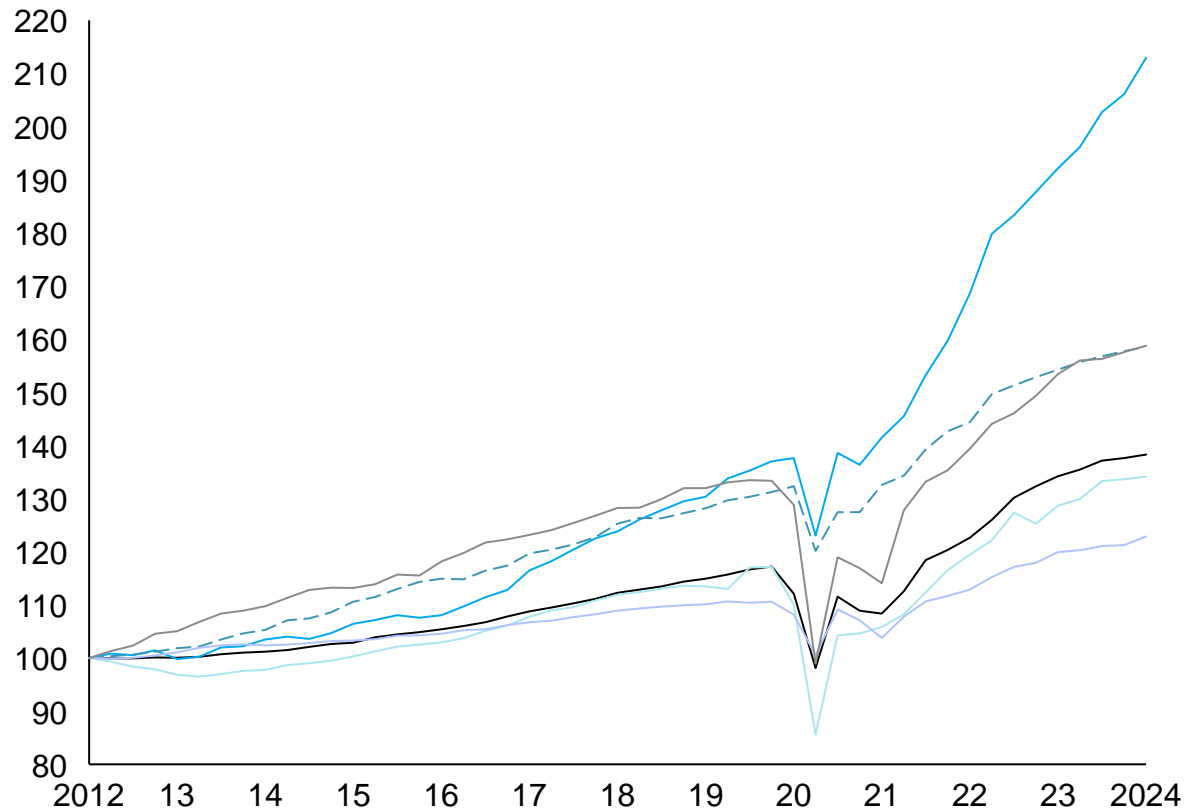
1. All European Union Member States in the euro area; 2. Interim results for Q4 2021

Private Consumption (2/2)

Nominal consumption slowed in the last quarter of 2023, while real consumption remained either stable or declined

Private Consumption

Nominal, Local Currency, Index (Q1 2012 = 100)



| | Change (%) Q4 20 - Q4 21 | Change (%) Q4 21 – Q4 22 | Change (%) Q4 22 – Q4 23 |
|---------------------|-----------------------------|-----------------------------|-----------------------------|
| Europe ¹ | 10.6 | 9.8 | 4.0 |
| Poland | 14.3 | 14.9 | 9.8 |
| Russia | 19.1 | 8.1 | 16.1 |
| Spain | 11.4 | 7.5 | 6.7 |
| Sweden | 13.3 | -1.2 | 3.2 |
| Switzerland | 4.2 | 5.6 | 2.8 |
| United Kingdom | 15.6 | 10.2 | 5.5 |

1. All European Union Member States in the euro area; 2: Data on Russia not seasonally adjusted

Retail Sales



Eurozone's real retail sales have continued to stagnate in Q3 2023. Nominal spending has been boosted by higher price levels but volumes saw marginal declines up until Q3 2023. Retail sales volume has remained just about 2% above its pre-pandemic level.

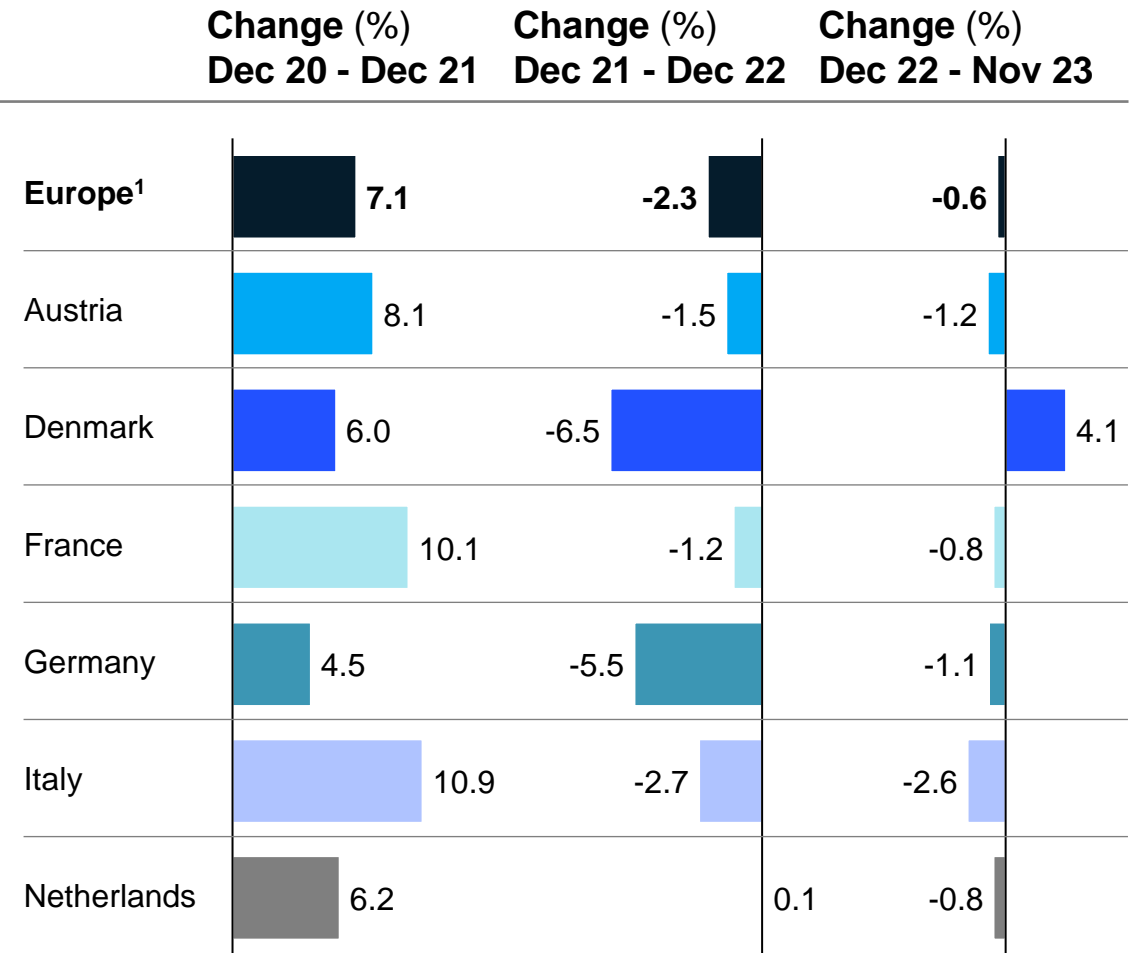
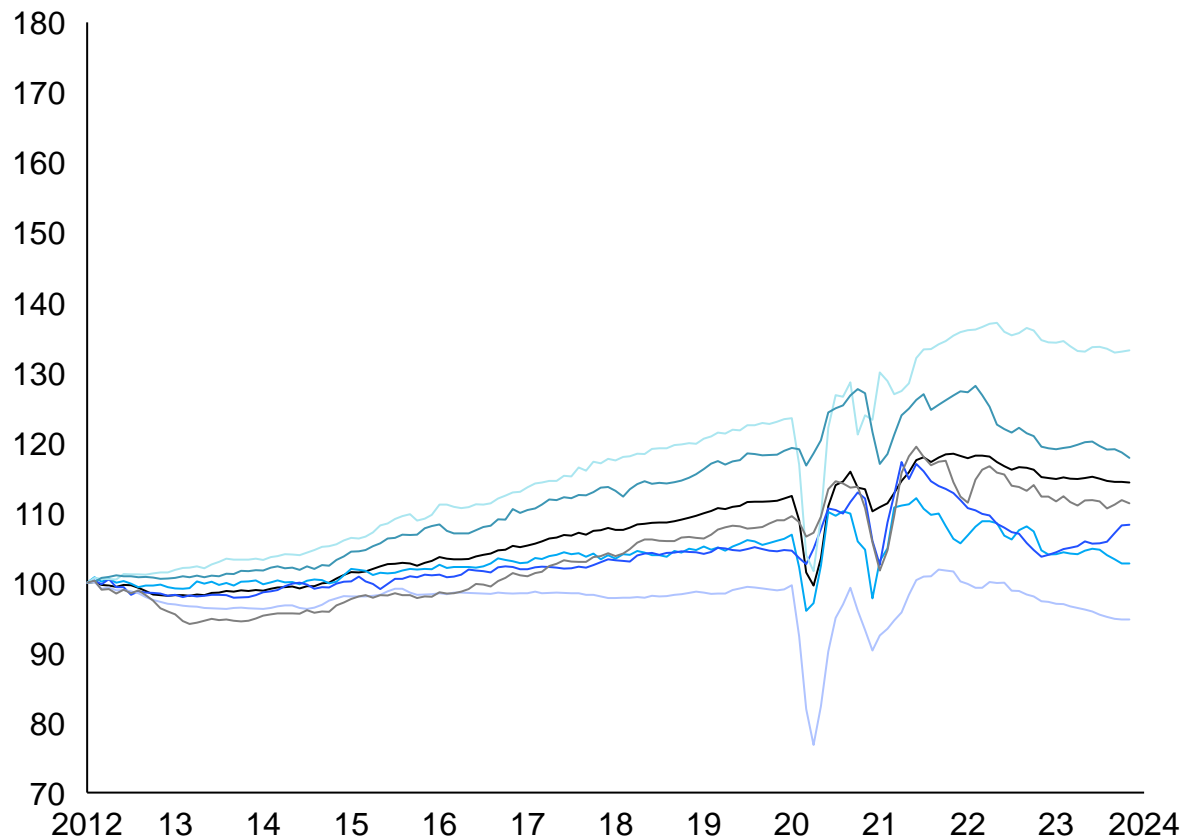
Household sentiment continues to remain weak despite decelerating inflation. Higher interest rates continue to dampen spending as it has made returns on savings more attractive for consumers. Higher interest rates are also weighing on debt-financed consumption of durables.

Retail Sales (1/2)

Stagnation or slight contraction in retail sales volume across most countries in Europe in 2023

Retail Sales

Volume index (2012=100), 3-months rolling



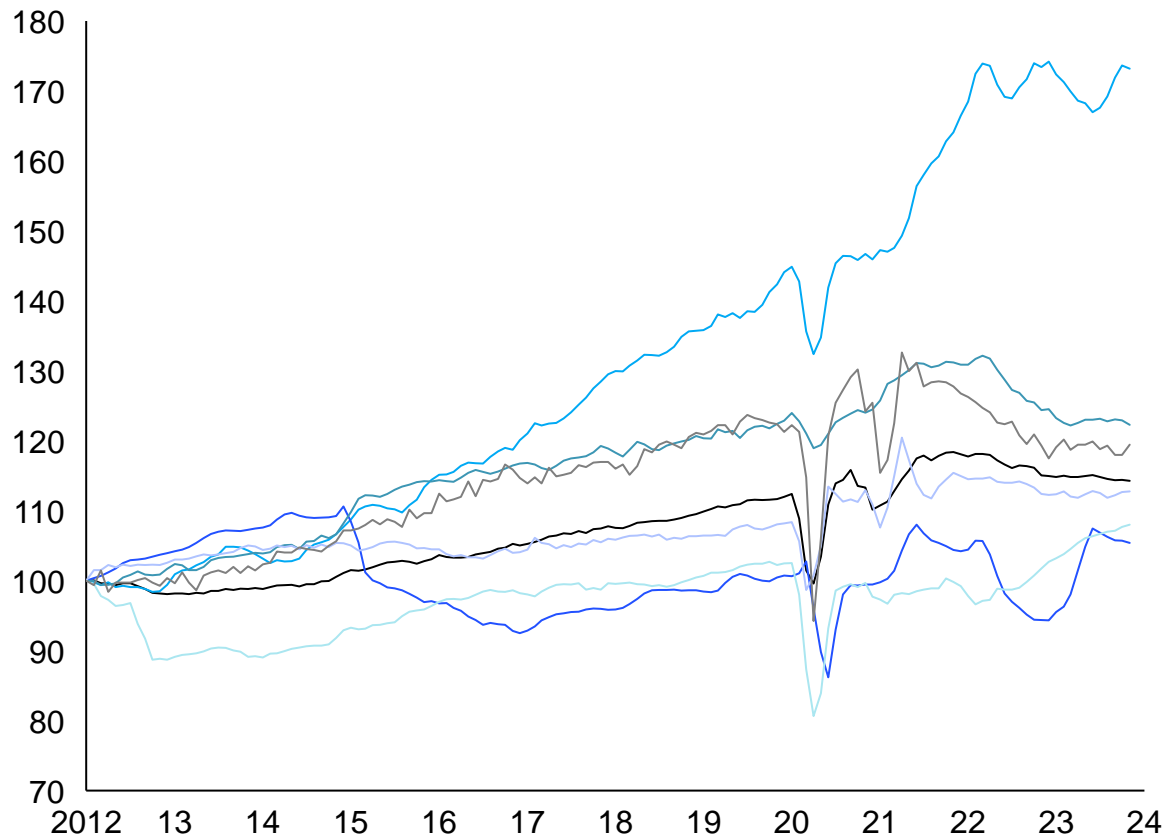
1. All European Union Member States in the euro area

Retail Sales (2/2)

Stagnation or slight contraction in retail sales volume across most countries in Europe in 2023

Retail Sales

Volume index (2012=100), 3-months rolling



| | Change (%) Dec 20 - Dec 21 | Change (%) Dec 21 - Dec 22 | Change (%) Dec 22 - Nov 23 |
|---------------------|-------------------------------|-------------------------------|-------------------------------|
| Europe ¹ | 7.1 | -2.3 | -0.6 |
| Poland | 14.1 | 4.6 | -0.6 |
| Russia | 4.8 | -9.4 | 11.7 |
| Spain | 1.6 | 3.6 | 5.1 |
| Sweden | 5.3 | -4.7 | -1.8 |
| Switzerland | 3.8 | -2.3 | 0.4 |
| United Kingdom | 1.1 | -6.4 | 1.7 |

1. All European Union Member States in the euro area

Consumer Prices



Eurozone inflation rose slightly (2.9% y-o-y in December 2023), continuing a drop from double digit inflation figures seen in October of last year, when inflation surged to an all-time high of 11.1%. Overall, a broad-based disinflationary trend continues, with marginal rebound of headline inflation figures driven by energy base effects.

Full-year inflation in 2023 reached 5.4%, after a staggering 8.4% a year before. Momentum in key components are likely to result in inflation easing to below 2% by mid-2024.

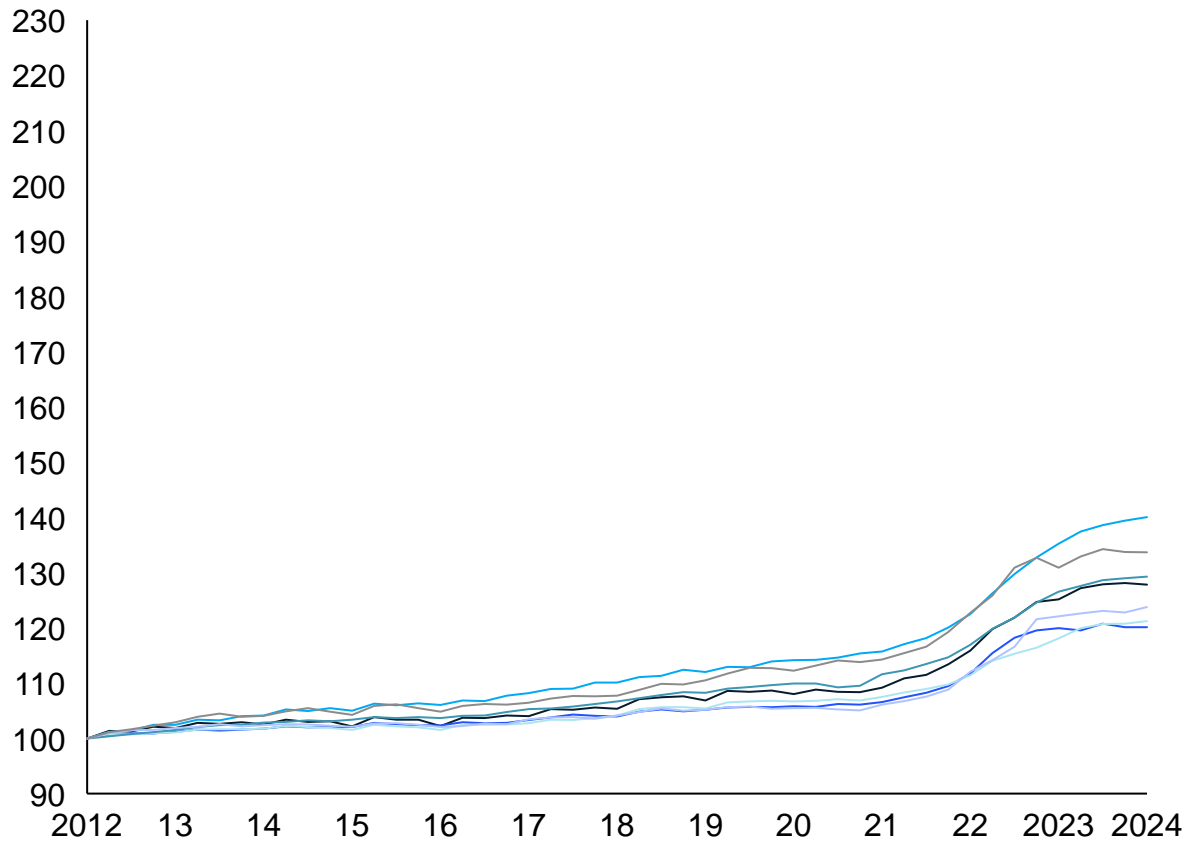
Since September, the ECB has kept key interest rates unchanged at historically high levels – potential undershooting of the inflation target may accelerate policy easing.

Consumer Prices (1/2)

Consumer inflation in the Eurozone reached record levels in 2022, though is slowing in Q4 22 – Q4 23

Consumer Price Index

Index (2012 Q1=100), Quarterly



| | Change (%) Q4 20 - Q4 21 | Change (%) Q4 21 - Q4 22 | Change (%) Q4 22 - Q4 23 |
|---------------------|-----------------------------|-----------------------------|-----------------------------|
| Europe ¹ | 4.6 | 9.9 | 2.7 |
| Austria | 3.9 | 11.1 | 5.0 |
| Denmark | 3.5 | 10.2 | 0.5 |
| France | 3.3 | 7.0 | 3.7 |
| Germany | 5.4 | 10.8 | 3.6 |
| Italy | 3.7 | 12.4 | 1.0 |
| Netherlands | 5.3 | 13.0 | 0.8 |

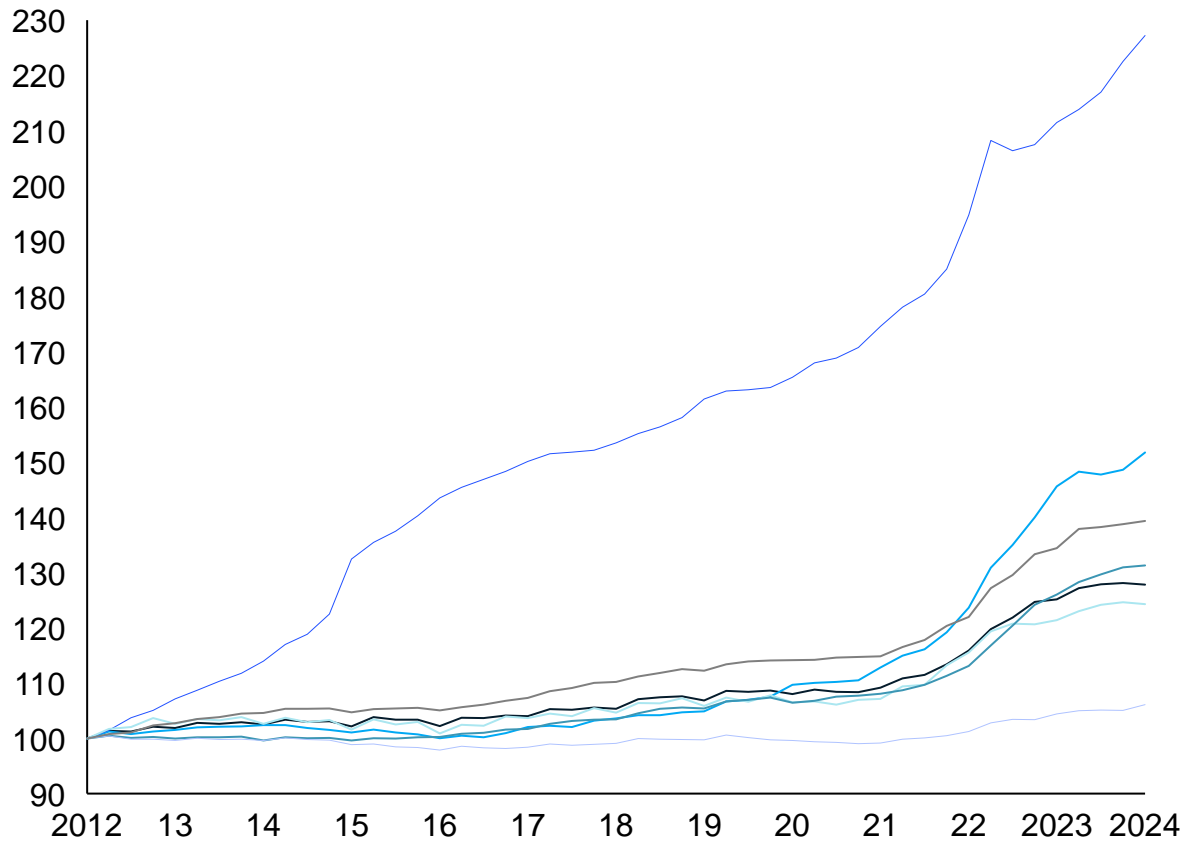
1. All European Union Member States in the euro area

Consumer Prices (2/2)

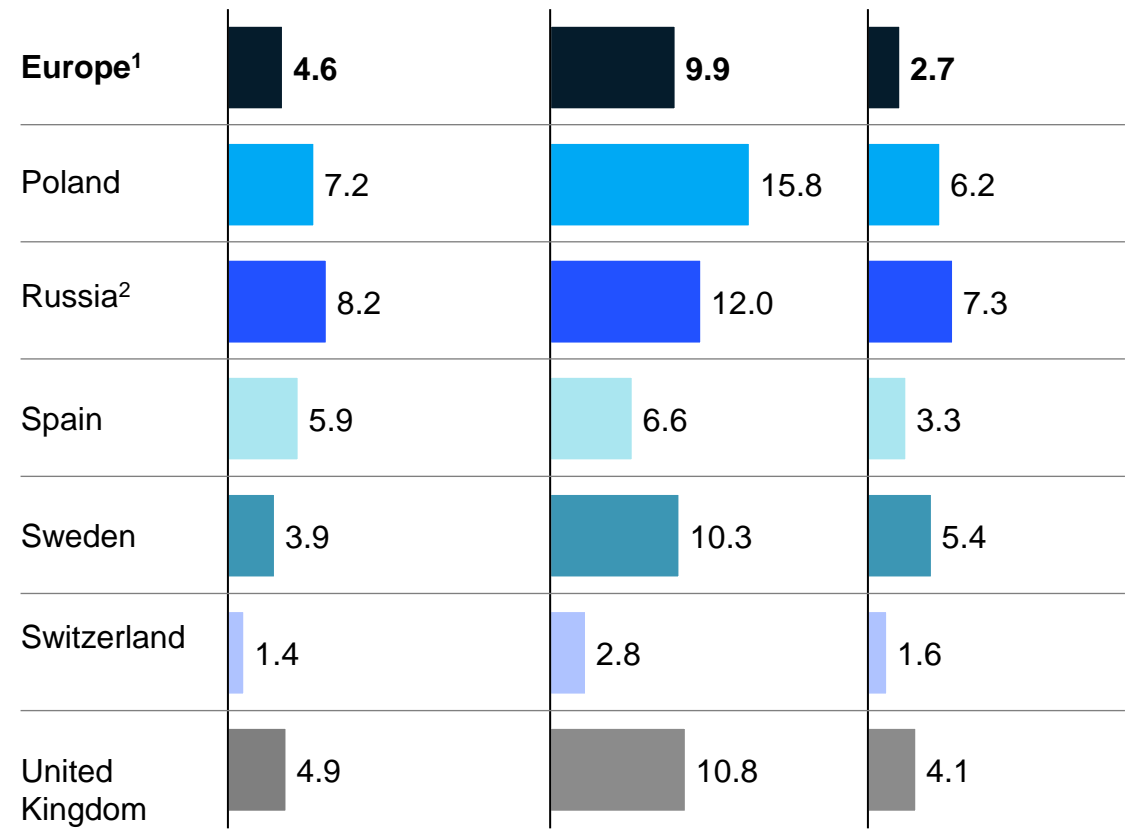
Consumer inflation in the Eurozone reached record levels in 2022, though slowing down in Q4 22 – Q4 23

Consumer Price Index

Index (2012 Q1=100), Quarterly



| | Change (%) Q4 20 - Q4 21 | Change (%) Q4 21 - Q4 22 | Change (%) Q4 22 - Q4 23 |
|--|-----------------------------|-----------------------------|-----------------------------|
|--|-----------------------------|-----------------------------|-----------------------------|



1. All European Union Member States in the euro area 2. CAGR

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Spotlight perspective – Who benefitted from inflation?

Spotlight perspective – Asia retail inspiration (the emergence of the “Zero Consumer”)

2023 in Retail

Main developments (TSR)

Global stock markets gained 17% in 2023, recovering from the -15% TSR drop in 2022, and bringing multiples above long-term historical averages again. A few industries (Semiconductors, High Tech and Media & Entertainment) drove most of the recovery in 2023, while Retail and AF&L performed in the middle of the pack.

After a difficult 2022, most retail subsegments have shown positive TSR in 2023 globally, except for Specialty, Sports and Wholesale. While negative TSR was generally more pronounced in Europe in 2022, the opposite is true for 2023 when Europe showed a stronger recovery in global comparison.

Retail subsegments experienced a growth slowdown in 2023 versus the very strong growth year 2022. Broadly, growth is expected to increase again in 2024. Margins are expected to stay relatively flat – a sign that retail companies have increasingly been able to pass on cost pressures driven by inflation and supply issues.

Last quarter's earnings season saw a majority of companies beat EBITDA consensus, after which forward-looking (2024) estimates were adjusted upwards accordingly. The revenue picture proved more diverse. Impact on share prices was minor during the day of the earnings announcement for most cases, even though some saw share price movements of more than 10%.

Value creation drivers

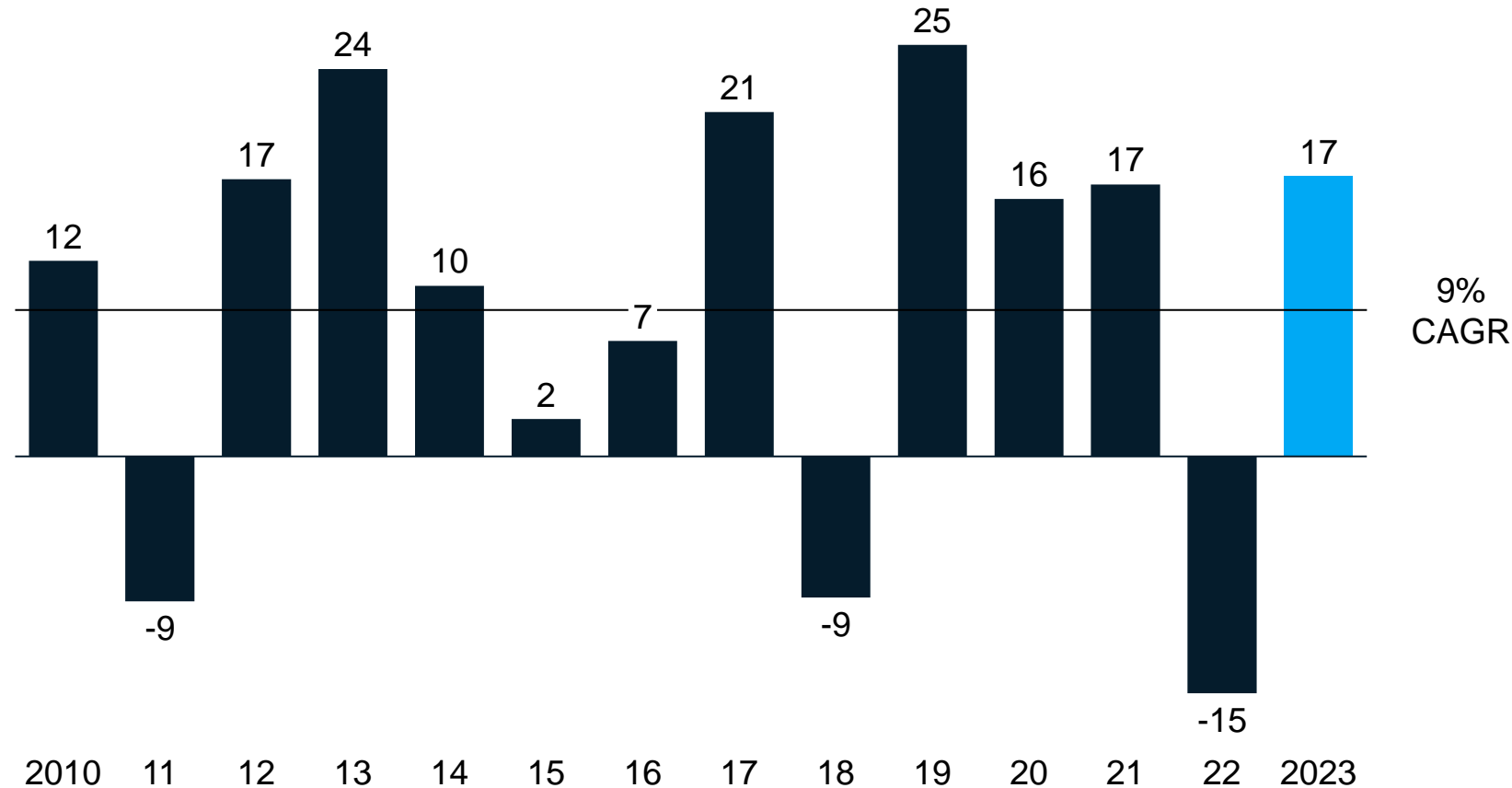
Retail companies that attract high valuations have higher short-term and long-term growth expectations, continuing their superior historical growth performance. The margin picture is more diverse across sub-sectors.

Even though companies with relatively high ROICs are typically more sensitive to changes in growth than margin, margin is considered the key value driver for both low and high ROIC companies within Mass, Grocery & Drug, Department Stores and Wholesale. This is driven by the relatively small spread between ROIC and cost of capital.

Global stock market rebounded in 2023 with “Magnificent 7” driving big part of returns

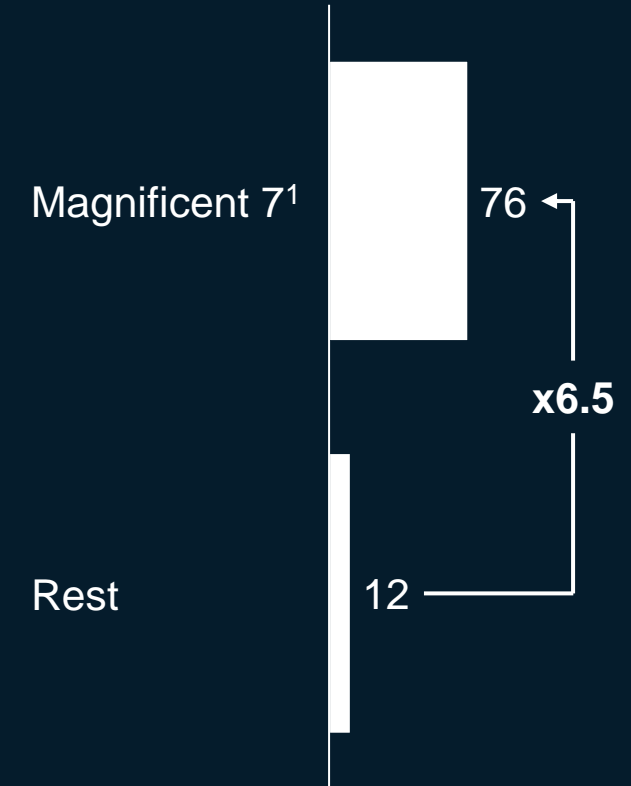
Global market total shareholder returns (TSR), %

As of December 31, 2023



Returns of “Magnificent 7” versus the rest

TSR, %



1. Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla

Note: Weighted average of the top 5,000 companies in each year by market capitalization

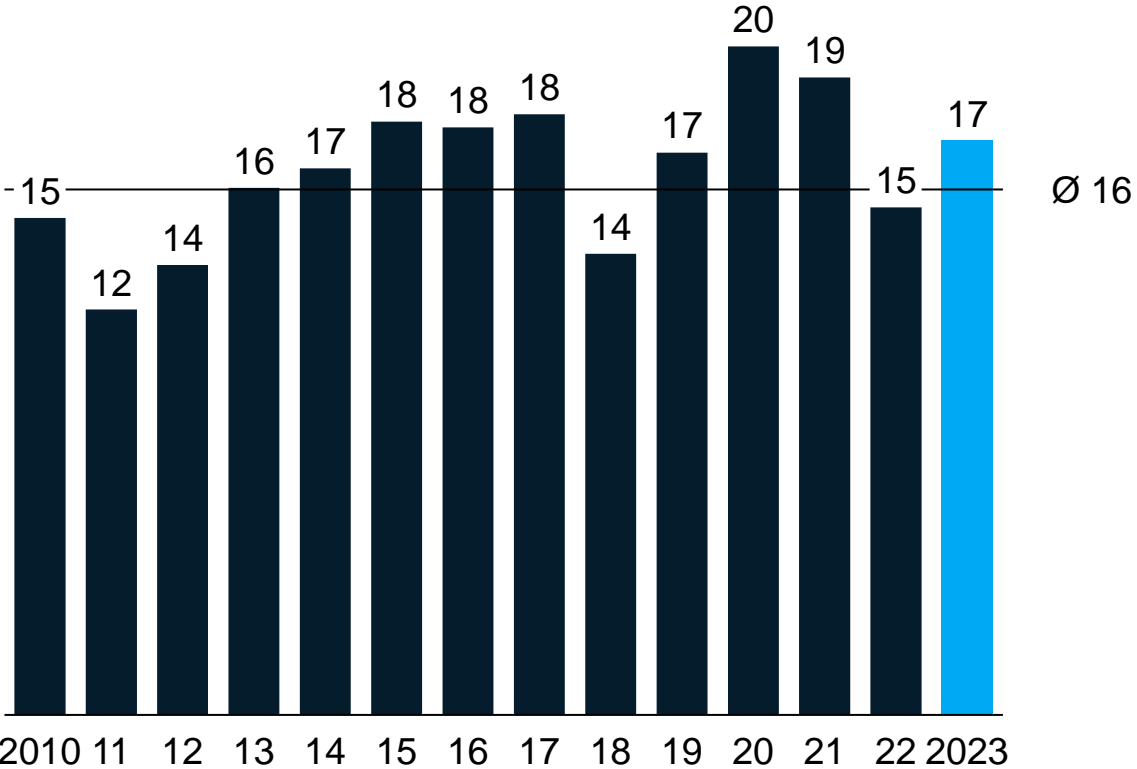
Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

Median valuation multiples have bounced back but remain close to long-term averages

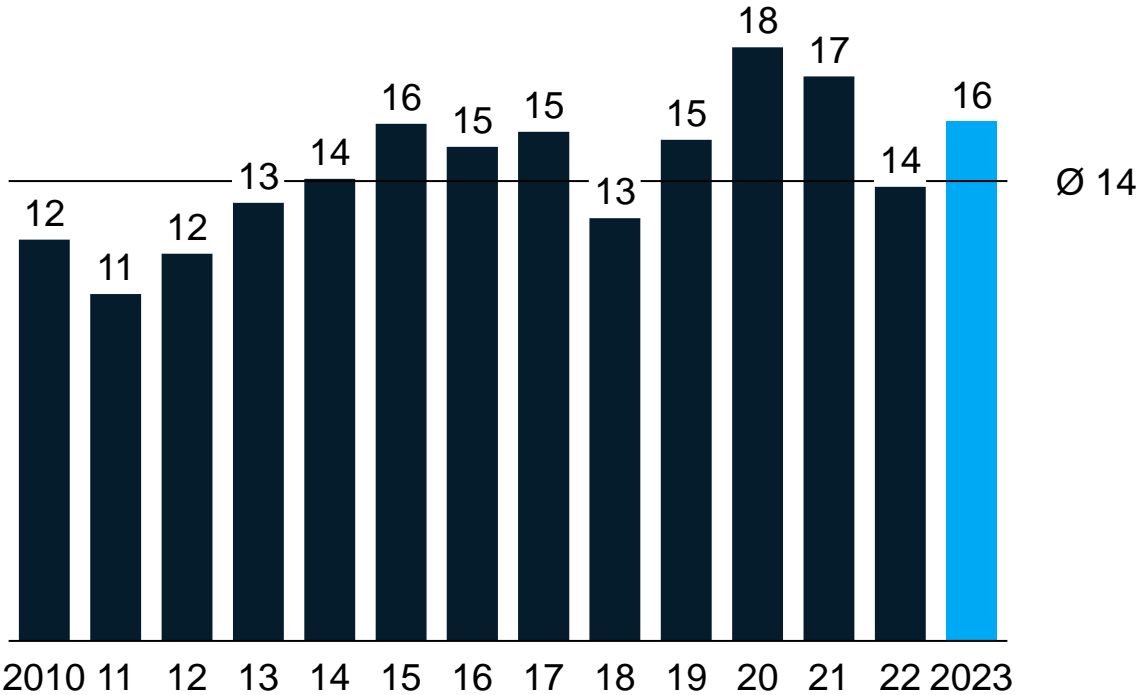
Median global forward (FY+1) market multiples, x¹

As of December 31, 2023

Price-Earnings Ratio



EV/EBITA Multiple²



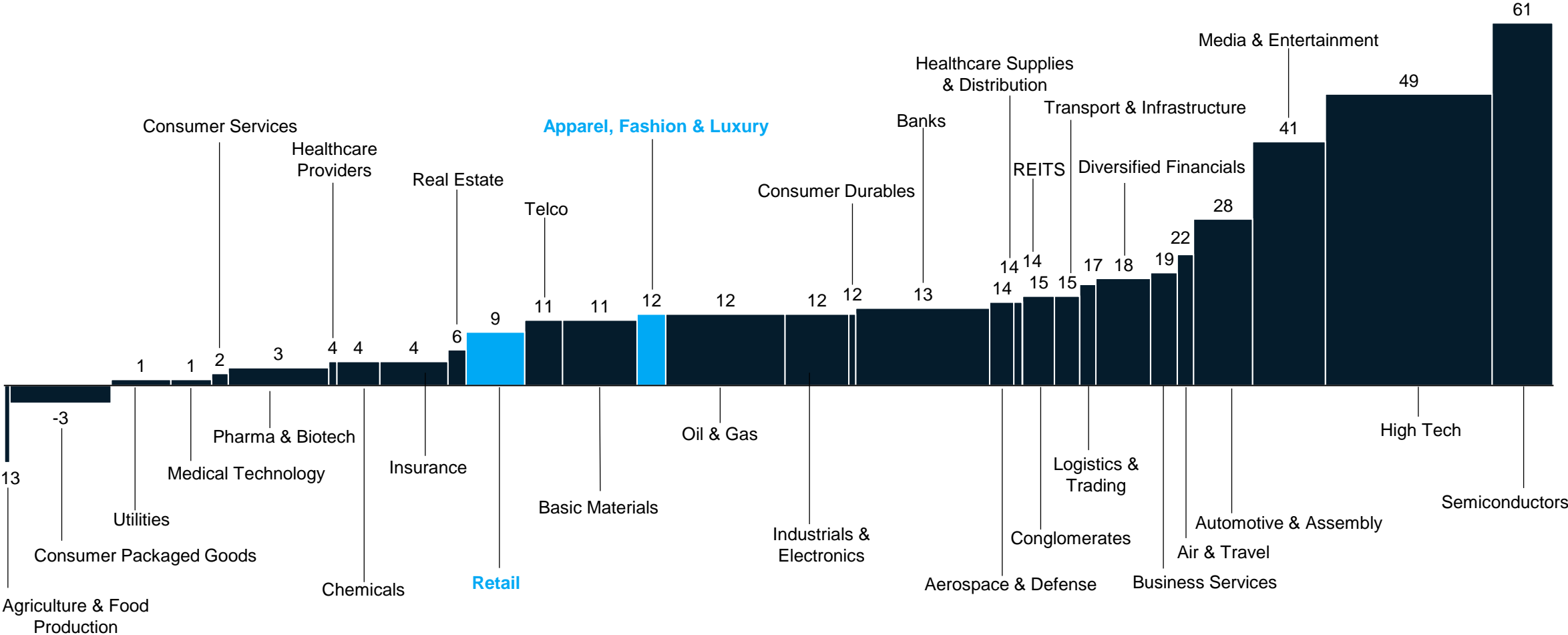
¹ Median of the top 5,000 companies in each year by market capitalization

² Excl. financial institutions

Select industries drove majority of the returns, while Retail and AF&L were in the middle of the pack

Weighted Average 2023 TSR by industry in %. Width of bar is 2022 market capitalization in \$¹

As of December 31, 2023



1. Based on the top 5000 companies globally by market cap as of 12/31/2022

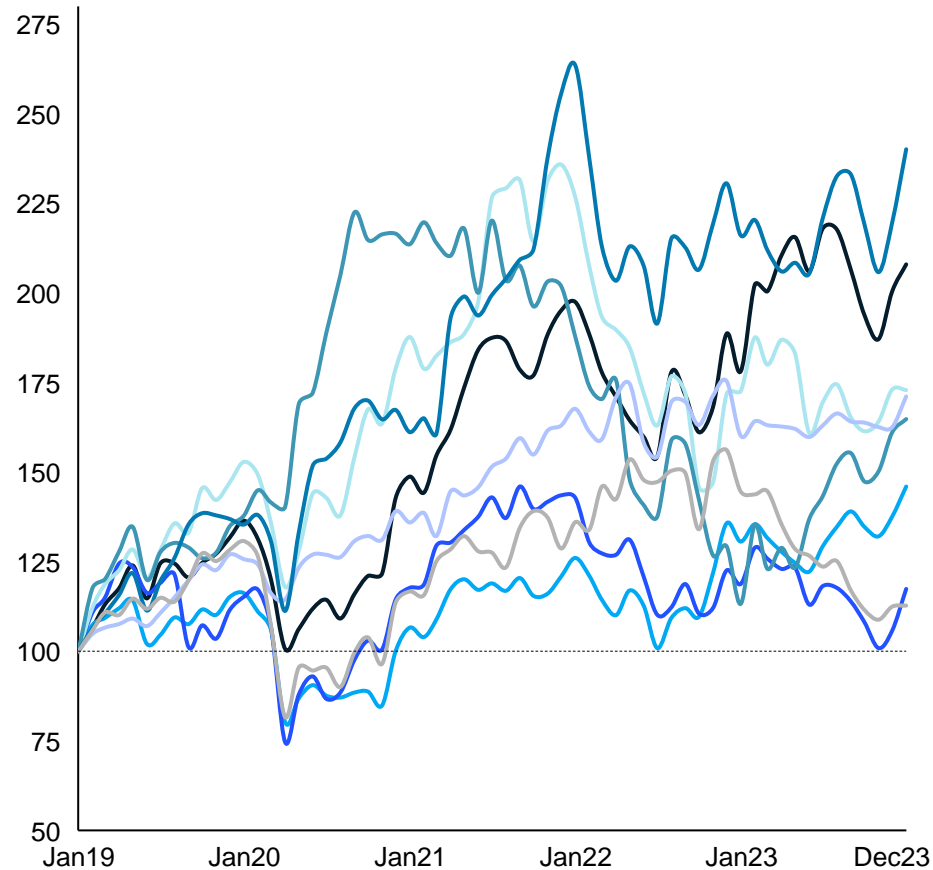
Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

Globally, most Retail subsegments recovered from 2022 downturn

Specialty, Sports and Wholesale have not been able to recover in 2023

Total shareholder returns (TSR) since Dec 18¹

EUR, Dec 31 2018 =100



1. N = 365

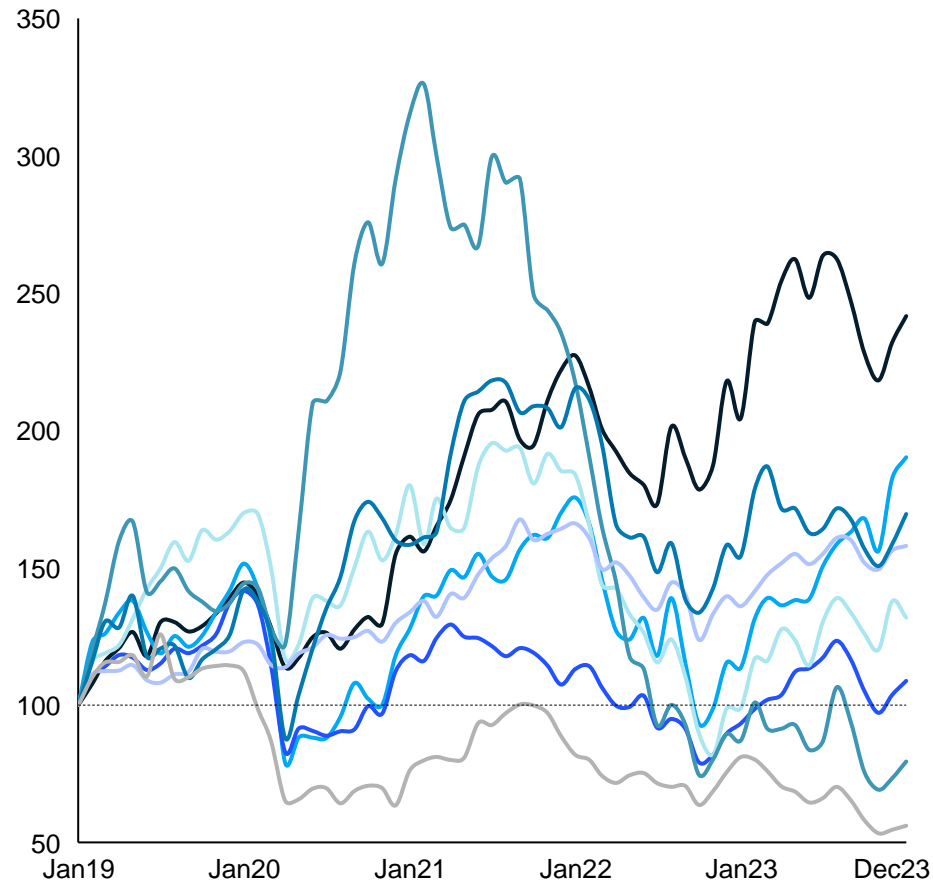
| | Last 5 years Dec 18 - Dec 23 % | Pre-pandemic Dec 18 - Dec 19 % | Pandemic years Dec 19 - Dec 21 % | 2022 Dec 21 - Dec 22 % | 2023 Dec 22 - Dec 23 % |
|---|--------------------------------------|--------------------------------------|--|------------------------------|------------------------------|
| Apparel, Fashion & Luxury Global | 16 | 36 | 20 | -10 | 17 |
| Department Stores Global | 8 | 16 | 4 | 4 | 12 |
| Specialty Retail Global | 3 | 15 | 11 | -17 | -1 |
| Sportswear & Sports Retail Global | 12 | 53 | 22 | -24 | 0 |
| Internet & Direct Marketing Retail Global | 11 | 38 | 17 | -40 | 46 |
| Mass, Grocery & Drug Global | 11 | 26 | 15 | -5 | 7 |
| Home & DIY Global | 19 | 35 | 39 | -18 | 11 |
| Wholesale and Cash & Carry Global | 2 | 31 | 2 | 6 | -22 |

In Europe, Retail sub-sectors were hit harder by the 2022 downturn vs global counterparts, but most also recovered stronger in 2023

Internet Retail and Wholesale continued their 2022 negative TSR trajectory in 2023

Total shareholder returns (TSR) since Dec 18¹

EUR, Dec 31 2018 =100



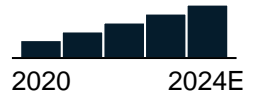
1. N = 66

| | Last 5 years Dec 18 - Dec 23 % | Pre-pandemic Dec 18 - Dec 19 % | Pandemic years Dec 19 - Dec 21 % | 2022 Dec 21 - Dec 22 % | 2023 Dec 22 - Dec 23 % |
|--|--------------------------------------|--------------------------------------|--|------------------------------|------------------------------|
| Apparel, Fashion & Luxury Europe | 19 | 45 | 25 | -10 | 18 |
| Department Stores Europe | 14 | 52 | 8 | -35 | 67 |
| Specialty Retail Europe | 2 | 42 | -11 | -18 | 17 |
| Sportswear & Sports Retail Europe | 6 | 70 | 4 | -46 | 33 |
| Internet & Direct Marketing Retail Europe | -5 | 44 | 23 | -60 | -9 |
| Mass, Grocery & Drug Europe | 10 | 23 | 16 | -18 | 16 |
| Home & DIY Europe | 11 | 42 | 23 | -28 | 10 |
| Wholesale and Cash & Carry Europe | -11 | 12 | -15 | -1 | -31 |

Globally, Retail revenue growth was generally positive in 2023 yet more muted compared to 2022, while margins remained stable

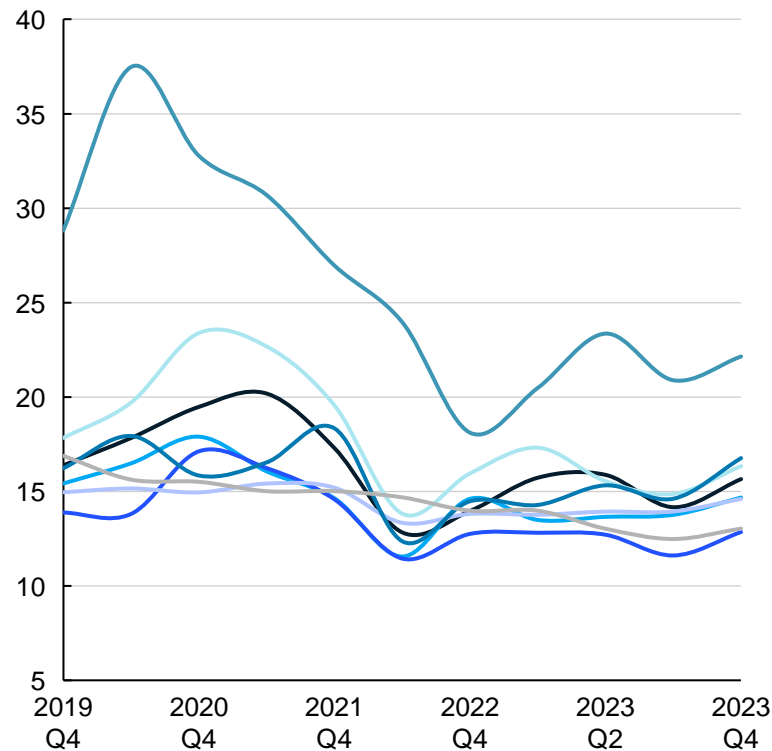
Internet Retail margins are expected to increase over the next 2 years, with an uptick in multiples versus recent quarters

— AF&L — Department Stores — Specialty retail — Sportswear & Sports Retail — Internet and Direct Marketing Retail — Mass, Grocery & Drug — Home & DIY — Wholesale and Cash & Carry



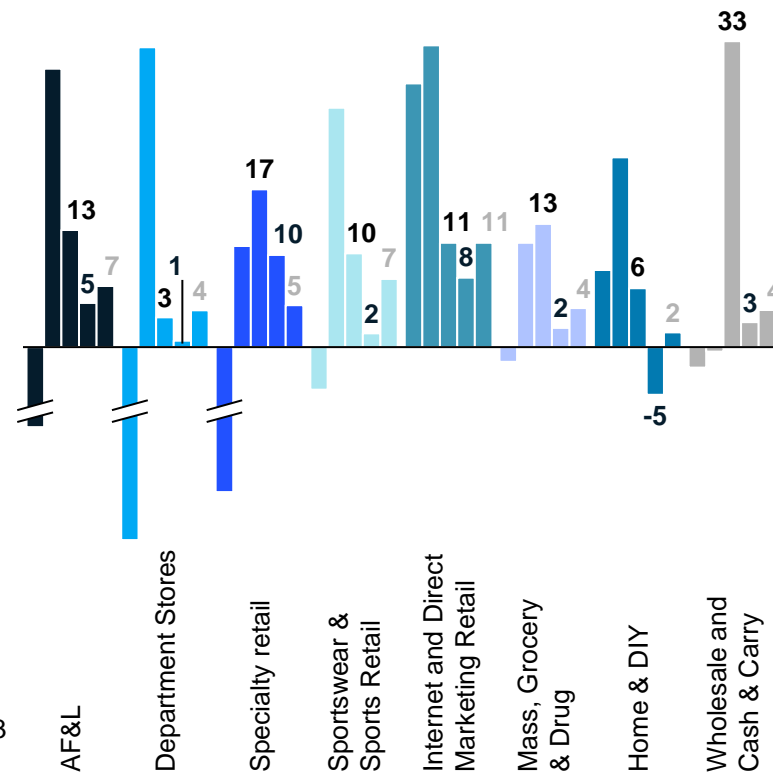
EV/EBITA FY+2¹

Dec 2019 – Dec 2023, Weighted average



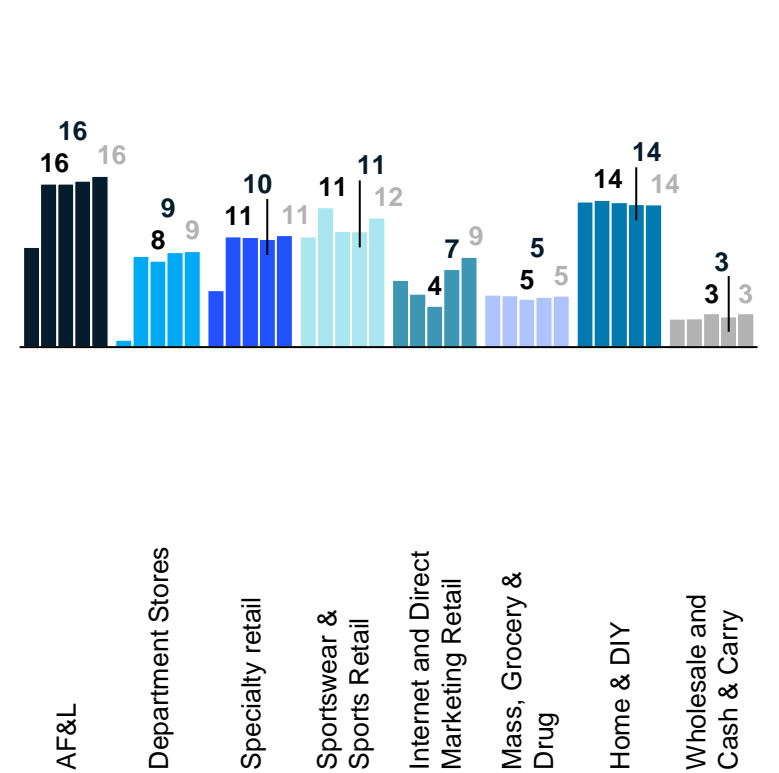
Revenue growth^{1,2}

%, 2020 – 2024E, Weighted average



EBITA margin^{1,2}

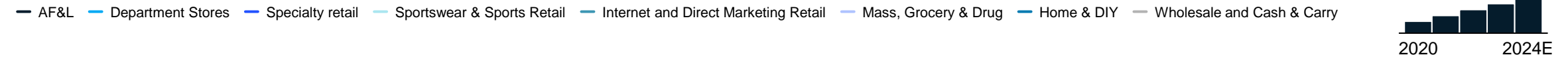
%, 2020 – 2024E, Weighted average



1. N = 331 (AF&L 22, Department Stores 2, Specialty retail 5, Sportswear & Sports Retail 5, Internet and Direct Marketing Retail 8, Mass, Grocery & Drug 18, Home & DIY 3, Wholesale and Cash & Carry 1); only includes companies for which a forward-looking estimate is available; 2. 2023 based on latest analyst consensus if actuals not available yet; 2024 based on latest analyst consensus estimates

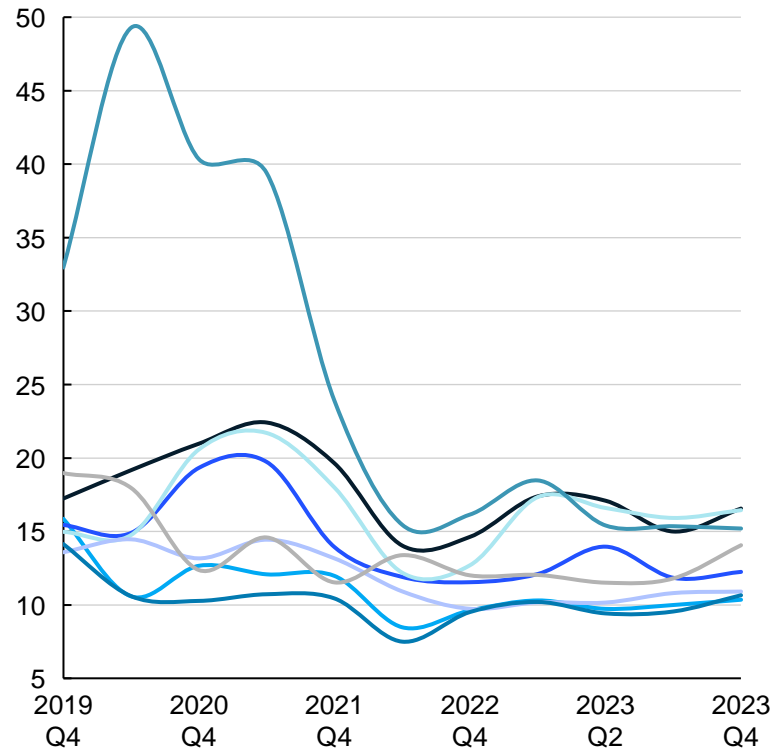
In Europe, Retail revenue growth was lower compared to 2022, while margins remained stable

Internet Retail margins are expected to turn positive by 2024



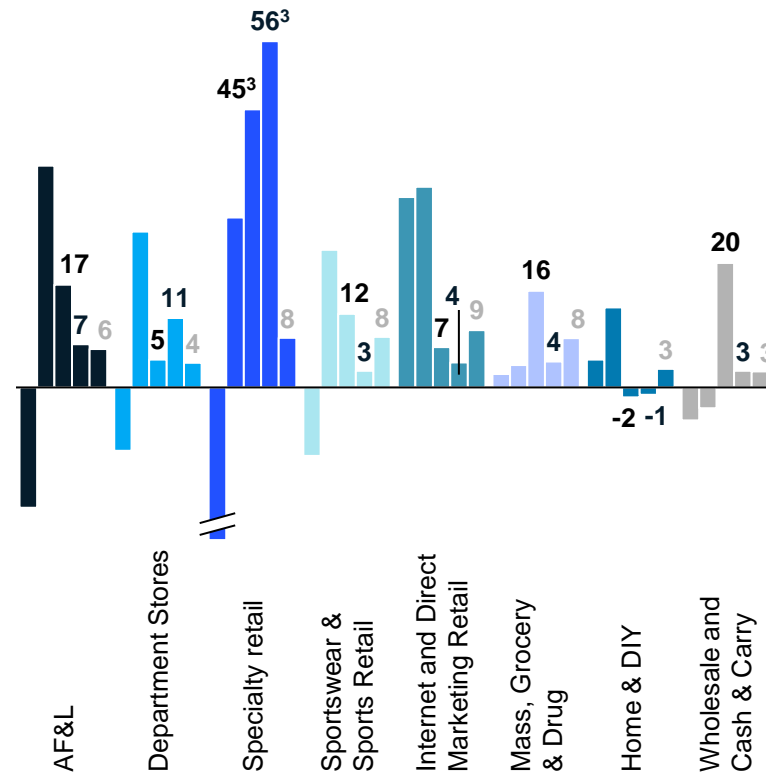
EV/EBITA FY+2¹

Dec 2019 – Dec 2023, Weighted average



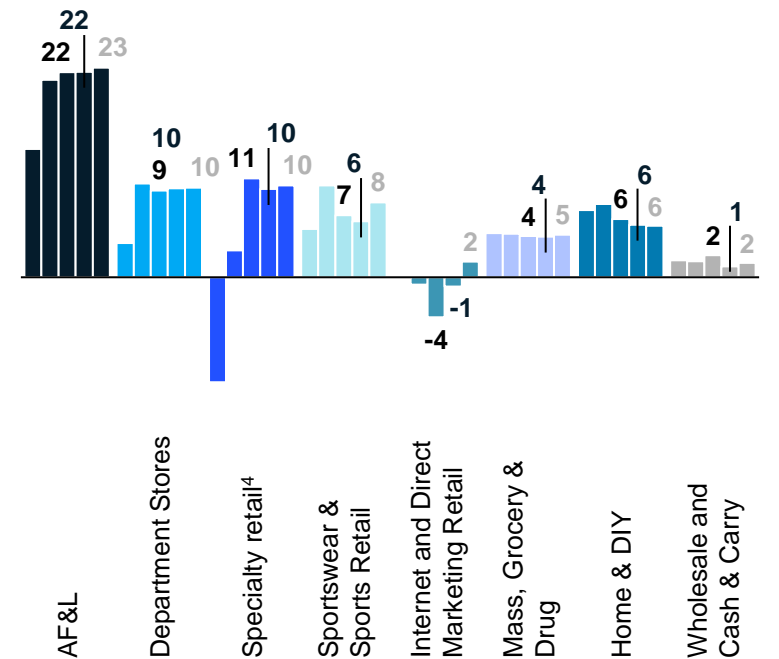
Revenue growth^{1,2}

%, 2020 – 2024E, Weighted average



EBITA margin^{1,2}

%, 2020 – 2024E, Weighted average



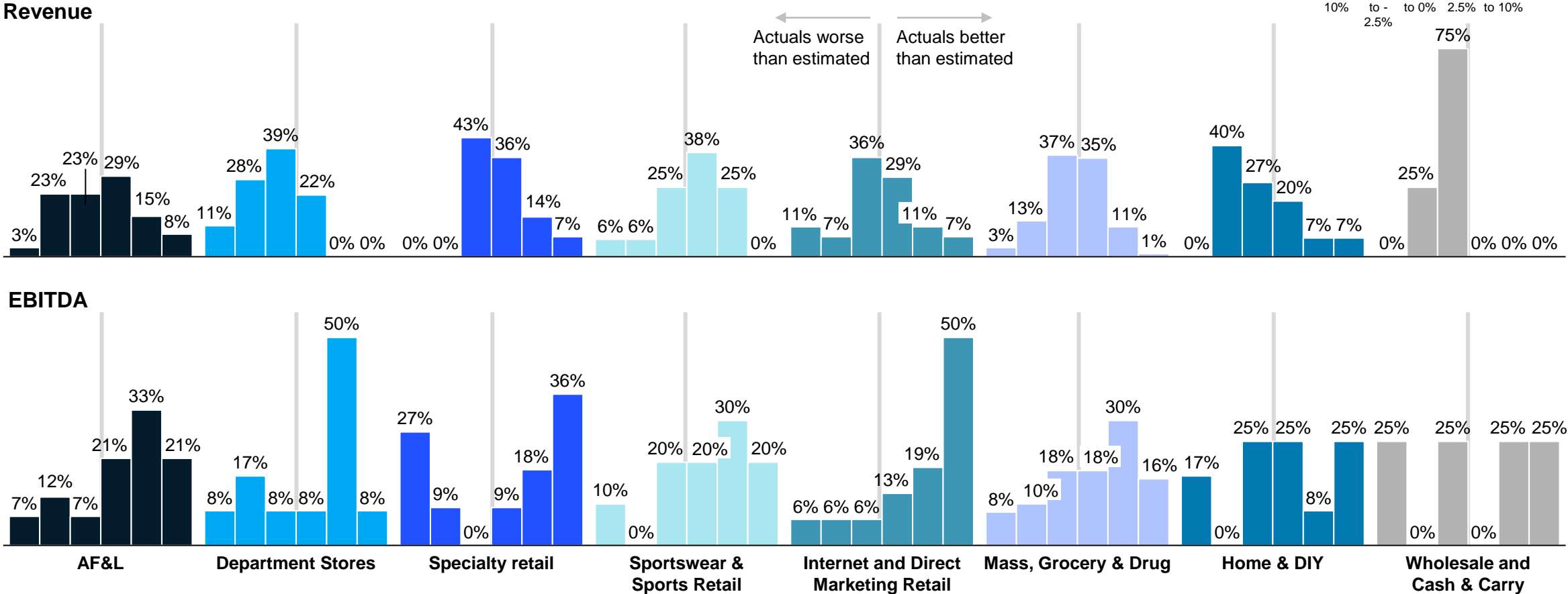
1. N = 64 (AF&L 22, Department Stores 2, Specialty retail 5, Sportswear & Sports Retail 5, Internet and Direct Marketing Retail 8, Mass, Grocery & Drug 18, Home & DIY 3, Wholesale and Cash & Carry 1); only includes companies for which a forward-looking estimate is available; 2. 2023 based on latest analyst consensus if actuals not avail. yet; 2024E based on latest analyst consensus; 3. Mainly driven by Avolta; 4. Negative margin for 2020 mostly driven by Travel Retailers

Across subsectors EBITDA surprises were more positive than revenue surprises in latest earnings announcements

Department Stores managed to get better EBITDA as expected, despite lower-than-expected revenues

Latest quarter revenue and EBITDA surprise effect

Delta between actuals and median estimate, % of companies within subsector



Note: Based on most recent quarterly earnings dates, ending 12/31/2023

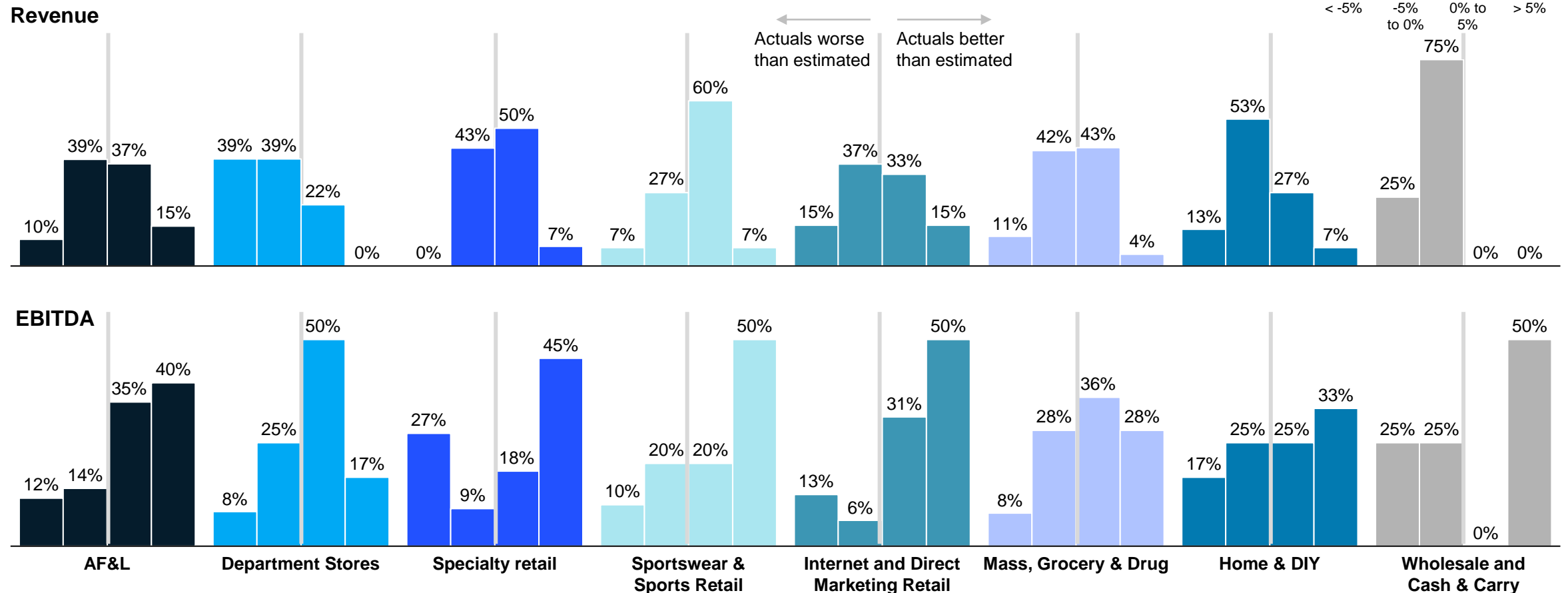
Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

In line with positive EBITDA surprises, forward-looking EBITDA estimates for 2024 were adjusted upwards accordingly

In Wholesale and Cash & Carry, estimates were adjusted downwards

Change in Revenue and EBITDA estimates post earnings announcement (FY+2)

% of companies within subsector



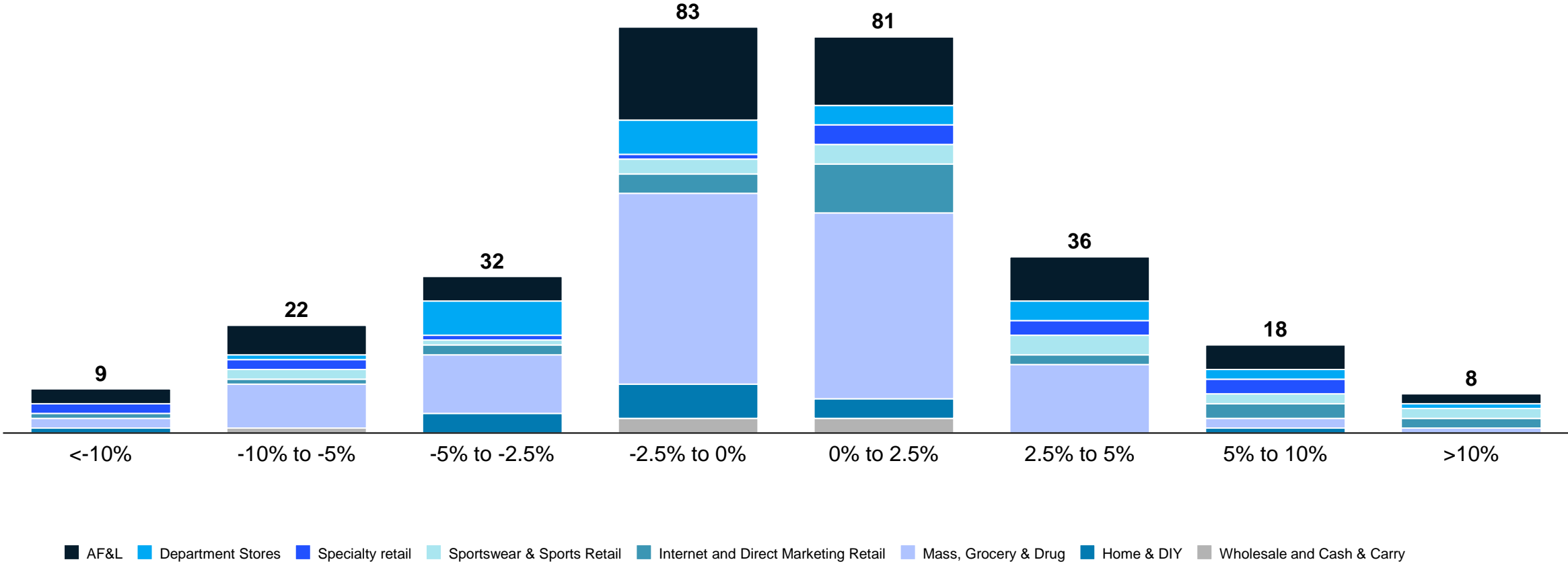
Note: Based on most recent quarterly earnings dates, ending 12/31/2023

Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

Majority of retail companies saw only minor share price adjustments after most recent earnings announcements

Mass, Grocery & Drug experienced the widest spread

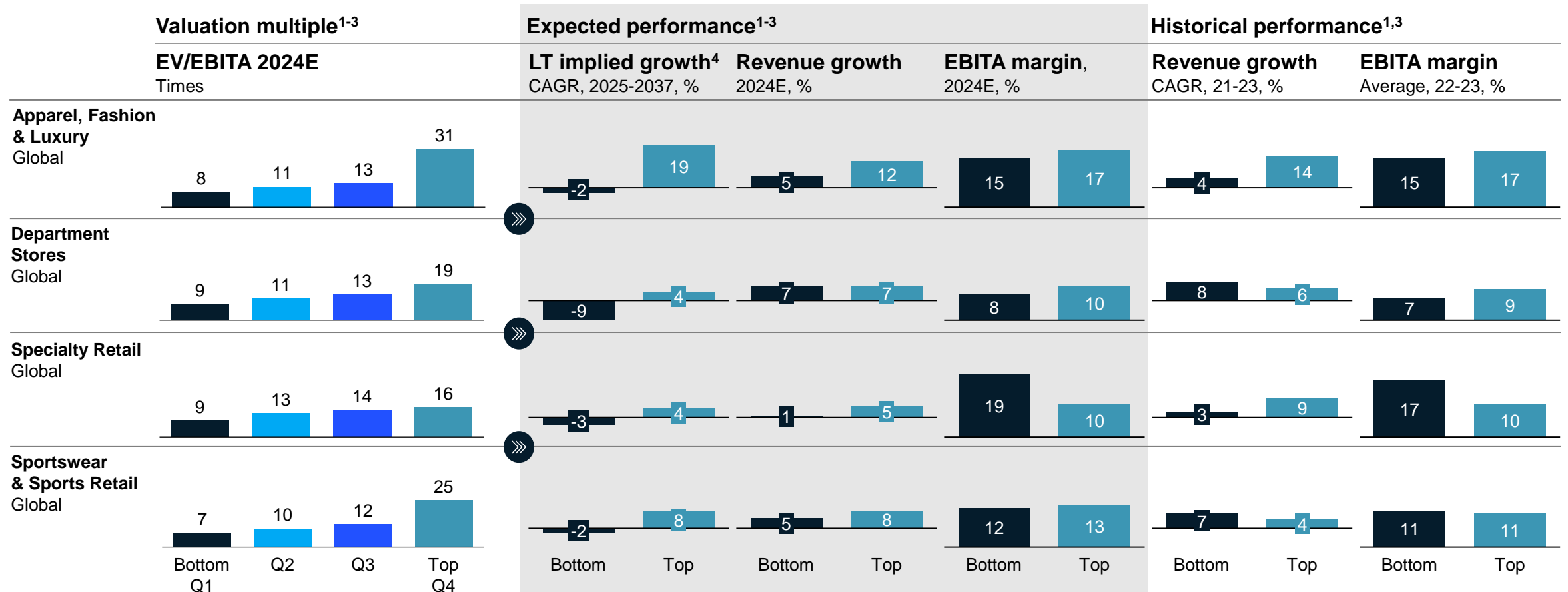
Share price delta less change in S&P 500 on day of most recent 2023 earnings announcement¹, # of companies



1. Based on a sample size of 289 companies and only includes companies where the latest earnings announcement was Q3 2023 or later.

High-valued Retail companies have higher long-term growth expectations, continuing their superior historical growth (1/2)

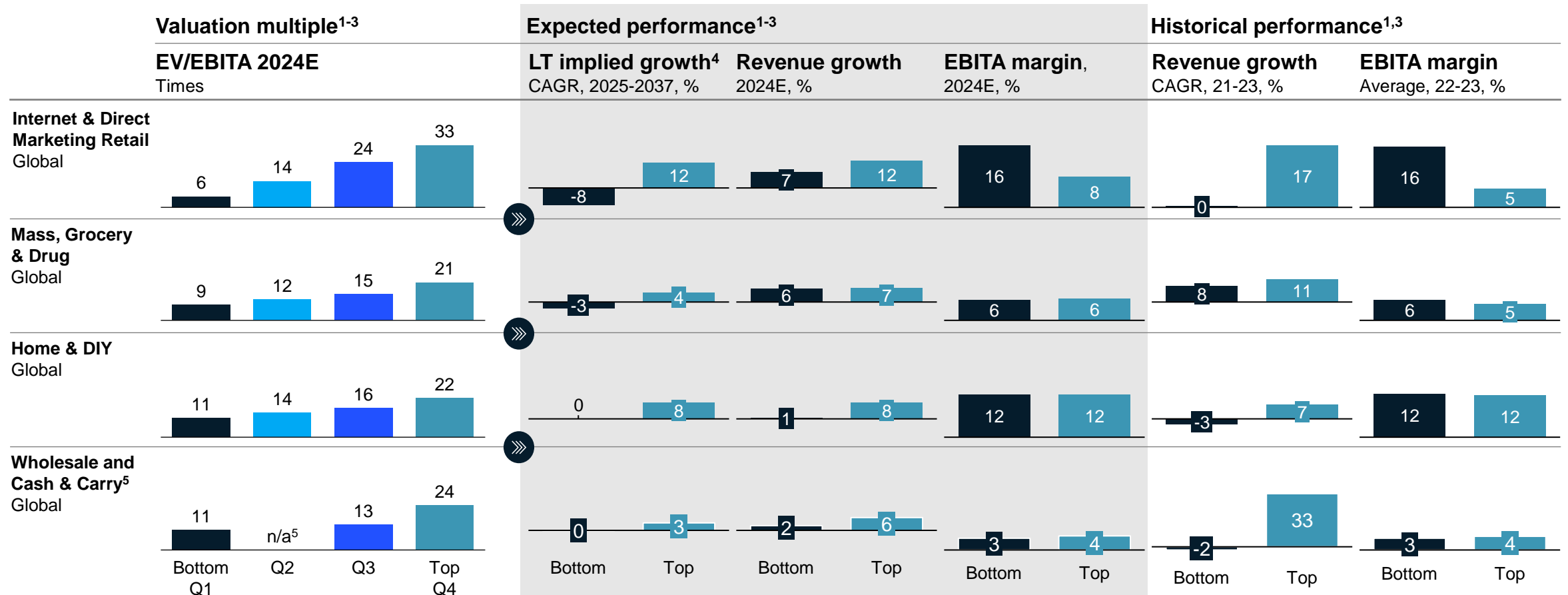
Margin picture is more diverse across sub-sectors



1. N = 280 (AF&L 74, Department Stores 21, Specialty Retail 18, Sports Retail 21, Internet Retail 19, Mass, Grocery and Drug 108, Home & DIY 16, Wholesale 3); 2. EV and analyst estimates as on December 31, 2023; 3. Medians within quartiles; Companies categorized based on EV/EBITA 2024E Multiple as of December 31, 2023; 4. Estimated using a simple DCF model by company. Revenues and margins for 2024 based on analyst consensus (for 2023 as well if actuals not available yet). 2025+ implied growth rate solves for December 31, 2023 company Net Enterprise Value. 2025+ margin set equal to 2024 expected margin and capital turnover set equal to median of 2018-2022. Continuing Value starts after 2037, where growth is capped at 4.5%. Only includes companies for which a long-term implied growth can be calculated

High-valued Retail companies have higher long-term growth expectations, continuing their superior historical growth (2/2)

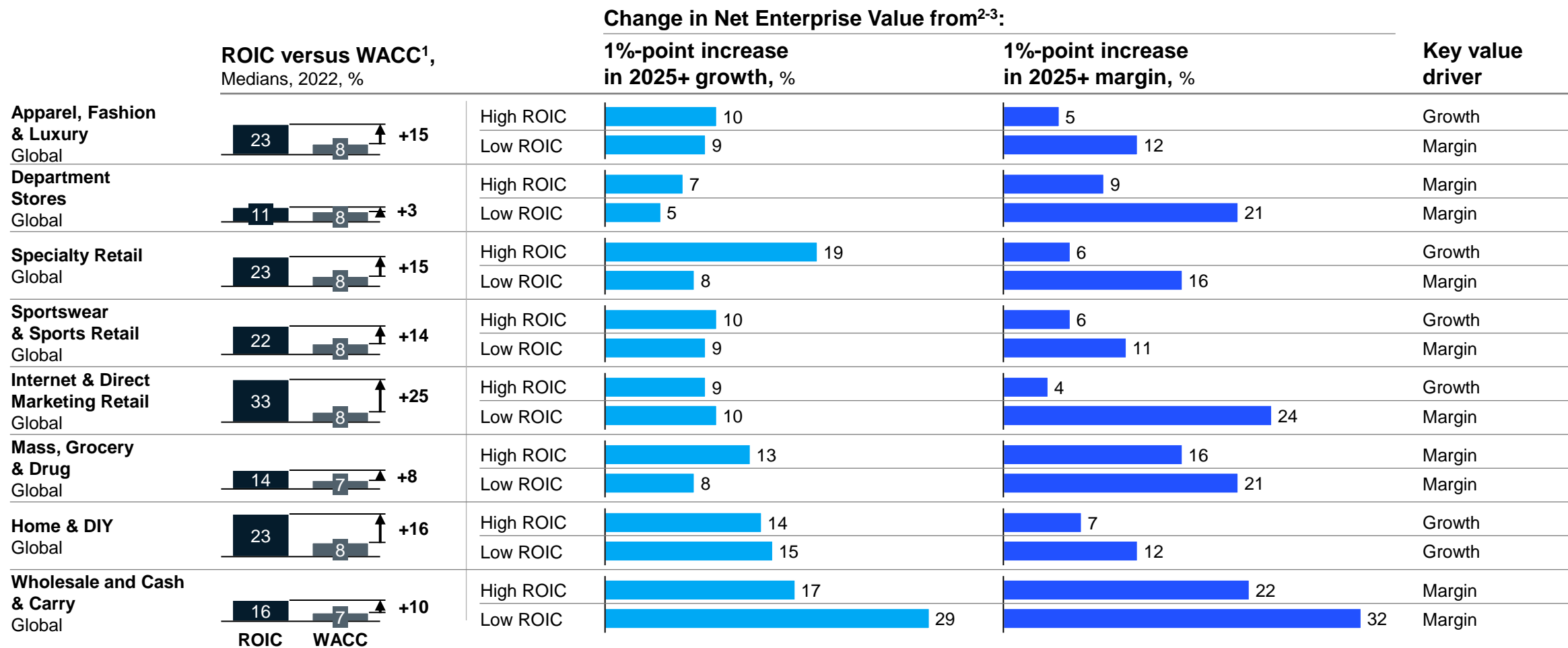
Margin picture is more diverse across sub-sectors



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Key value drivers differ across retail sub-sectors and ROIC profiles

For Department Stores, Mass and Wholesale even high ROIC companies see largest value potential from margin



1. ROIC 2022 median versus WACC 2022 median, since 2023 data not available for most companies yet; 2. Companies are classified in High ROIC and Low ROIC based on whether they achieved higher or lower ROIC in 2022 versus the median for the respective subsector; 3. Medians; Estimated using a simple DCF model by company. Revenues and margins for 2024 based on analyst consensus (2023 as well if actuals not available yet). 2025+ implied growth rate solves for December 31, 2023 company Net Enterprise Value. 2025+ margin set equal to 2024 expected margin and capital turnover set equal to median of 2018-2022. Continuing Value starts after 2037, where growth is capped at 4.5%

Contents

Macroeconomic context

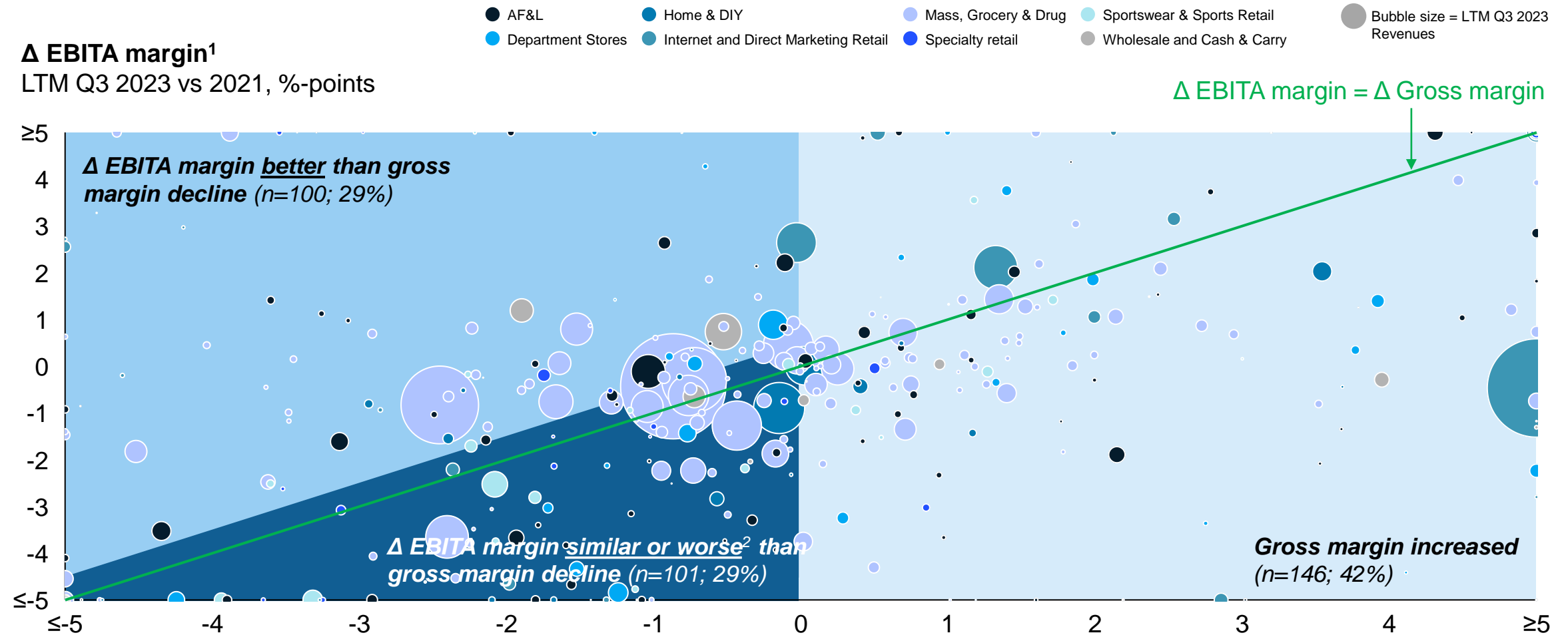
Value creation in retail

Spotlight perspective – Who benefitted from inflation?

Spotlight perspective – Asia retail inspiration (the emergence of the “Zero Consumer”)

Globally, ~60% of Retail companies saw gross margins decline in LTM Q3 2023 vs 2021, yet half of those were able to (partially) offset

~40% was able to improve gross margin from 2021 to LTM Q3 23



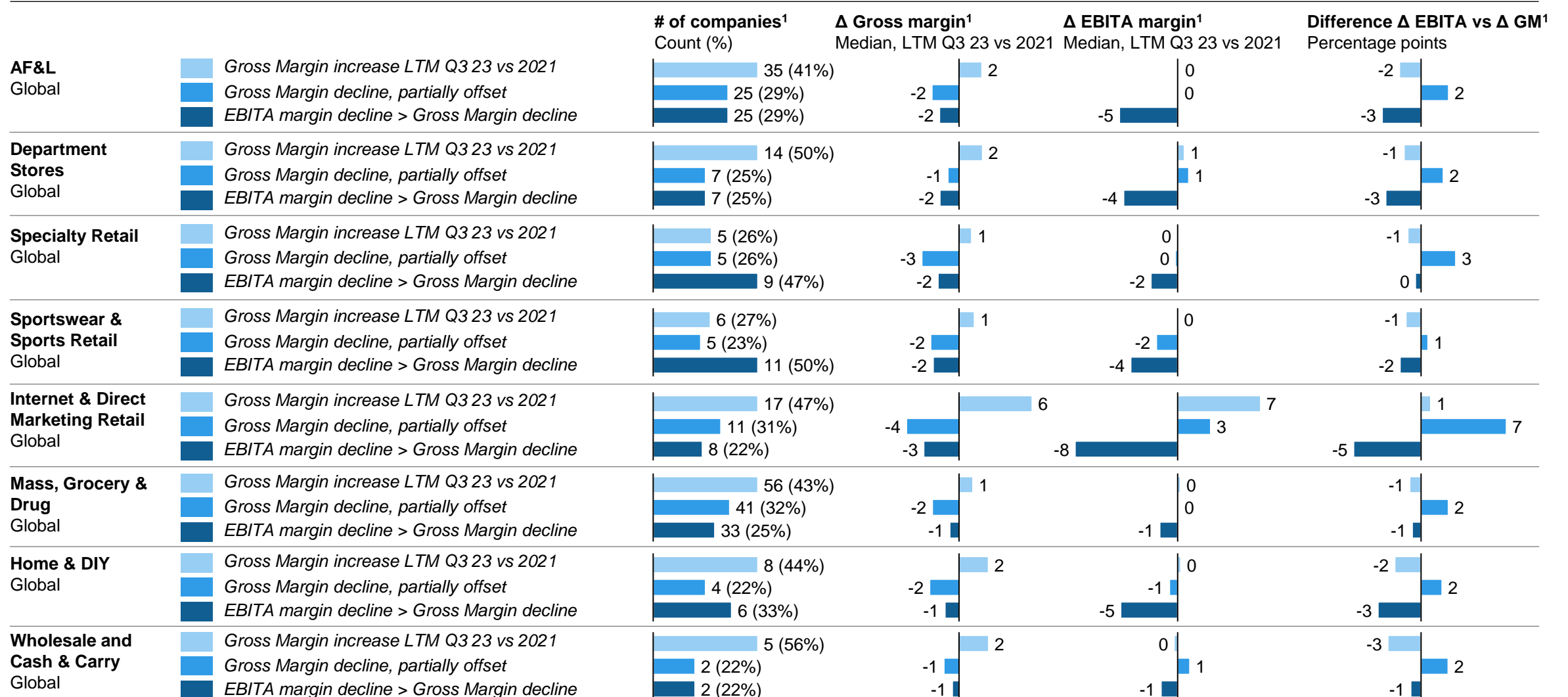
1. N = 347 (AF&L 85, Department Stores 28, Specialty Retail 19, Sports Retail 22, Internet Retail 36, Mass, Grocery and Drug 130, Home & DIY 18, Wholesale 9); only includes companies for which both a gross margin and EBITA margin delta can be calculated

2. 'Similar' = group includes companies for which gross margin declined and change in EBITA margin was slightly better (a maximum of 0.5pp higher vs gross margin decline)

Δ Gross margin
LTM Q3 2023 vs 2021, %-points

Across sub-sectors, ~25-50% of companies suffering gross margin decline were not able to offset through cost measures

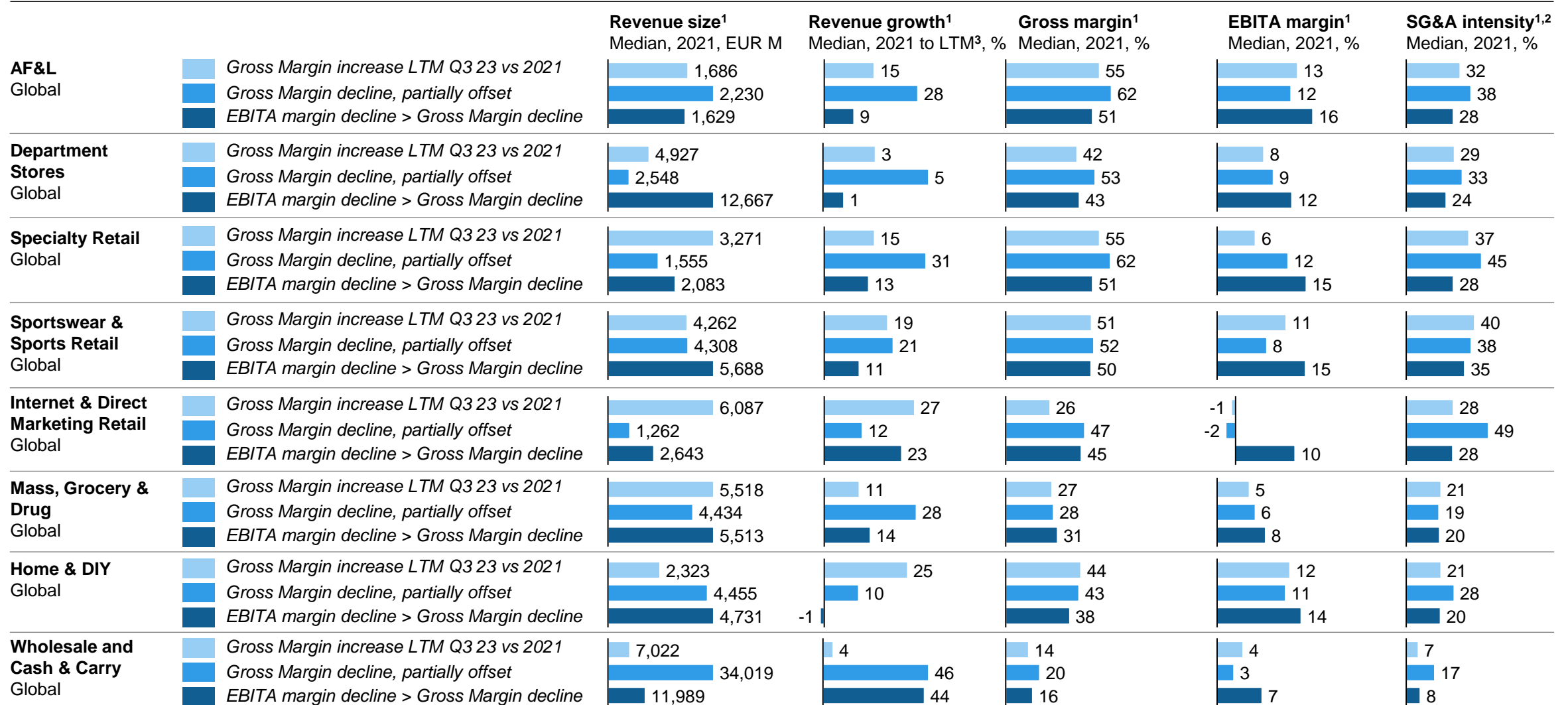
Overview of gross margin and EBITA margin dynamics LTM Q3 23 vs 2021



1. Only includes companies for which both a gross margin and EBITA margin delta can be calculated

Retail companies not able to offset part of the gross margin decline generally had lower growth, gross margin and SG&A intensity

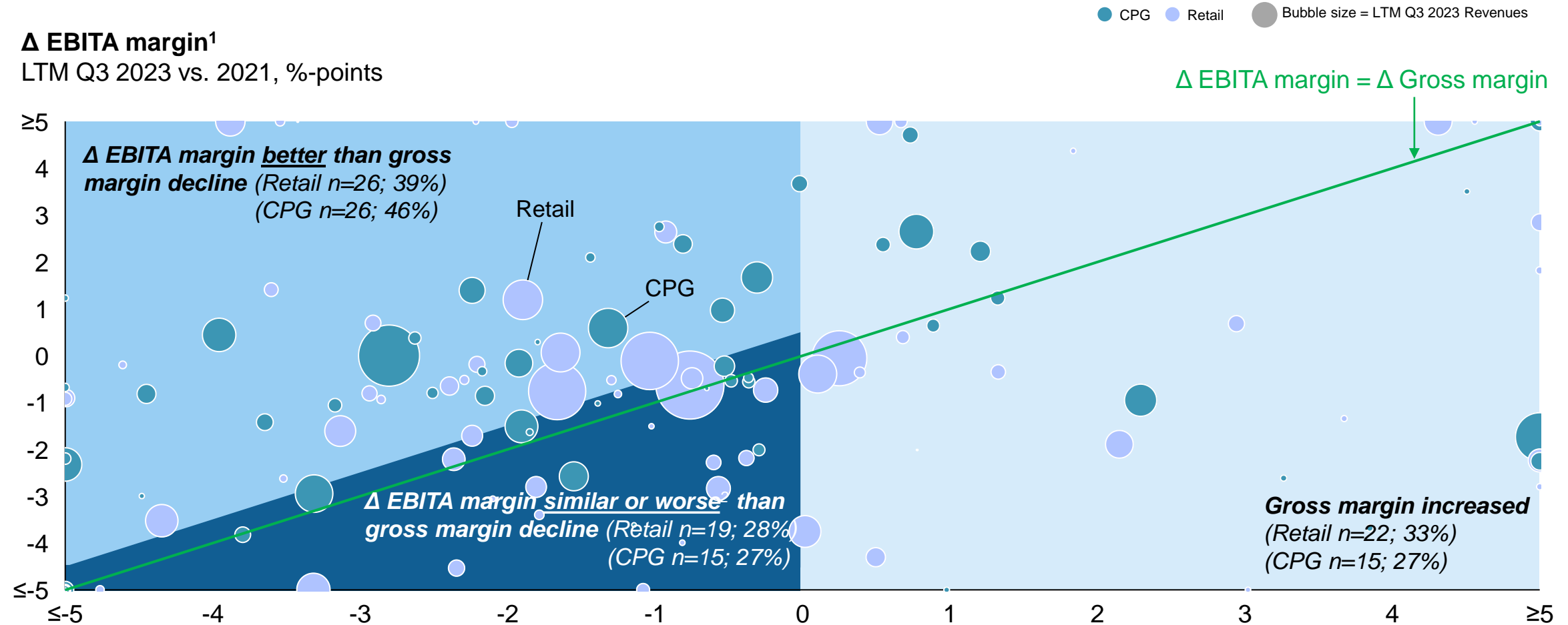
Overview of company characteristics by gross margin and EBITA margin performance group



1. Only includes companies for which both a gross margin and EBITA margin delta can be calculated; 2 SG&A as % of Revenues; 3. Growth in average quarterly revenues since not all quarters have data availability for all companies

In Europe, there is some evidence that CPGs were mildly better at offsetting gross margin declines than Retailers

For both European CPG and Retail, ~30% were able to improve gross margin from 2021 to LTM Q3 2023



1. Retail n= 67 and CPG n= 56; only includes companies for which both a gross margin and EBITA margin delta can be calculated
 2. 'Similar' means that this group includes companies for which gross margin declined and the change in EBITA margin was slightly better (a maximum of 0.5pp higher vs gross margin decline)

Δ Gross margin
LTM Q3 2023 vs. 2021, %-points

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Spotlight perspective – Asia retail inspiration (the emergence of the “Zero Consumer”)

What may Asia teach us about potential future developments in European retail?

Asia often is significantly ahead in certain retail trends, and therefore, looking beyond European borders can serve as meaningful inspiration for what may lie ahead for retailers in Europe in the future

The emergence of the ‘Zero’ consumer in Asia



1. **Zero boundaries:** A majority of shoppers are omnichannel and expect a seamless, ‘phygital’ omnichannel experience.



2. **Zero moderation:** Consumers are scrimping and splurging at the same time - While many consumers plan to purchase less or switch to cheaper brands, they splurge on premium items, such as restaurants and travel.



3. **Zero loyalty:** The pandemic acted as a catalyst for both – sticking to big trusted brands and experimenting with new shopping habits (e.g., new shopping methods, different brands etc.).



4. **Net zero:** Consumers are willing to pay more for sustainable consumption but are uncertain whether they can afford to pay more.

With the evolution of the Zero consumer, Retailers need to reinvent their relationships with customers, suppliers, employees, and investors

Further McKinsey reading on consumers in Asia:

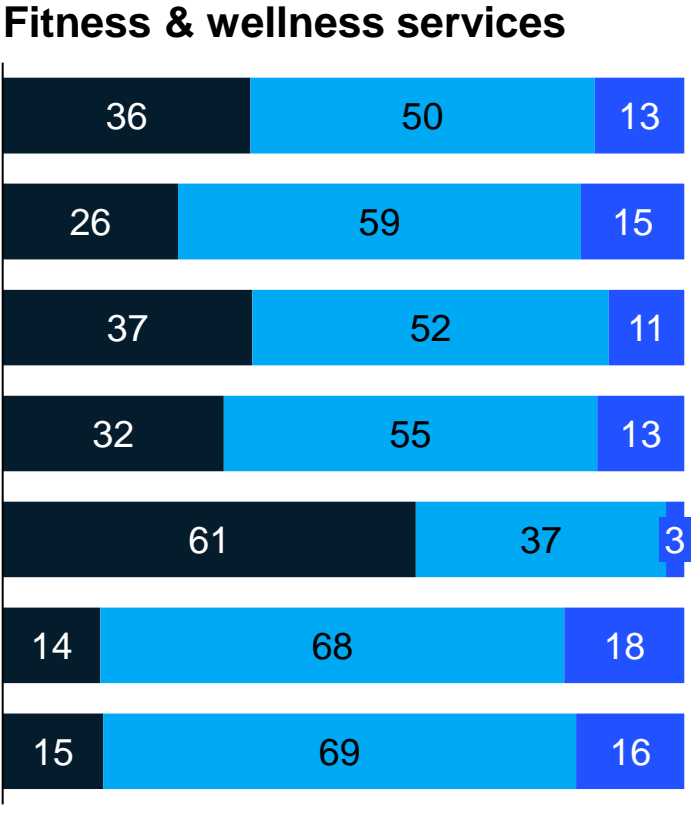
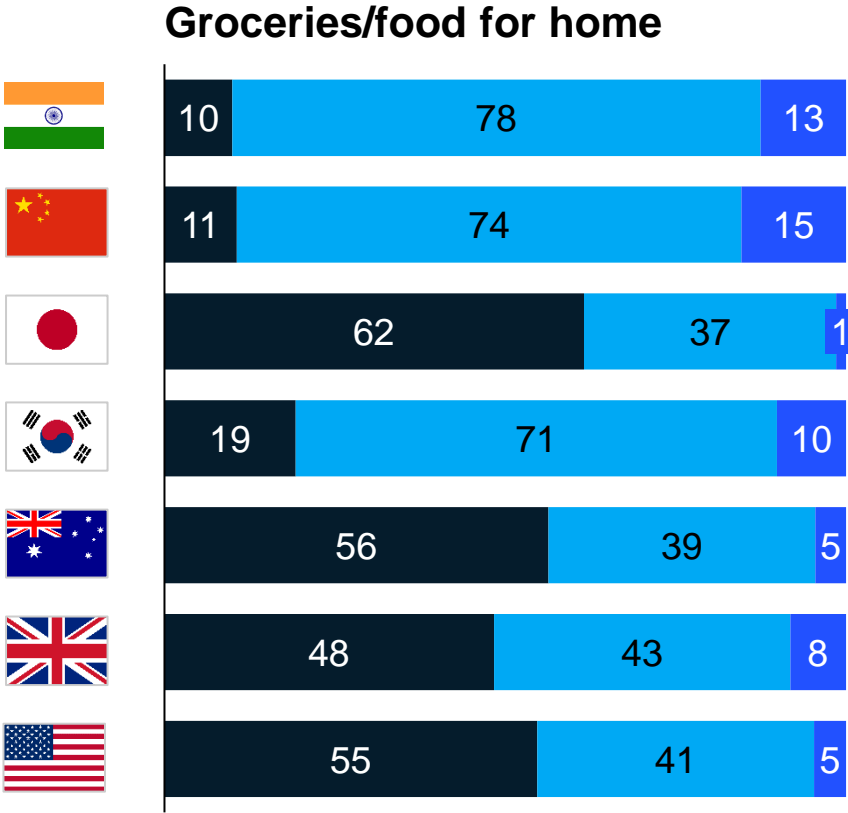
- China consumption: Start of a new era ([link](#))
- 2023 McKinsey China Consumer Report ([link](#))
- Winning in China: Top priorities for global apparel and fashion brands ([link](#))

Zero boundaries: Consumers demand 'phygital'

In store
 Omnichannel
 Online

Product searches and purchases by channel

% of respondents who purchased and searched in these categories in the last 3 months



Media and tech players going after your consumers with superior experience

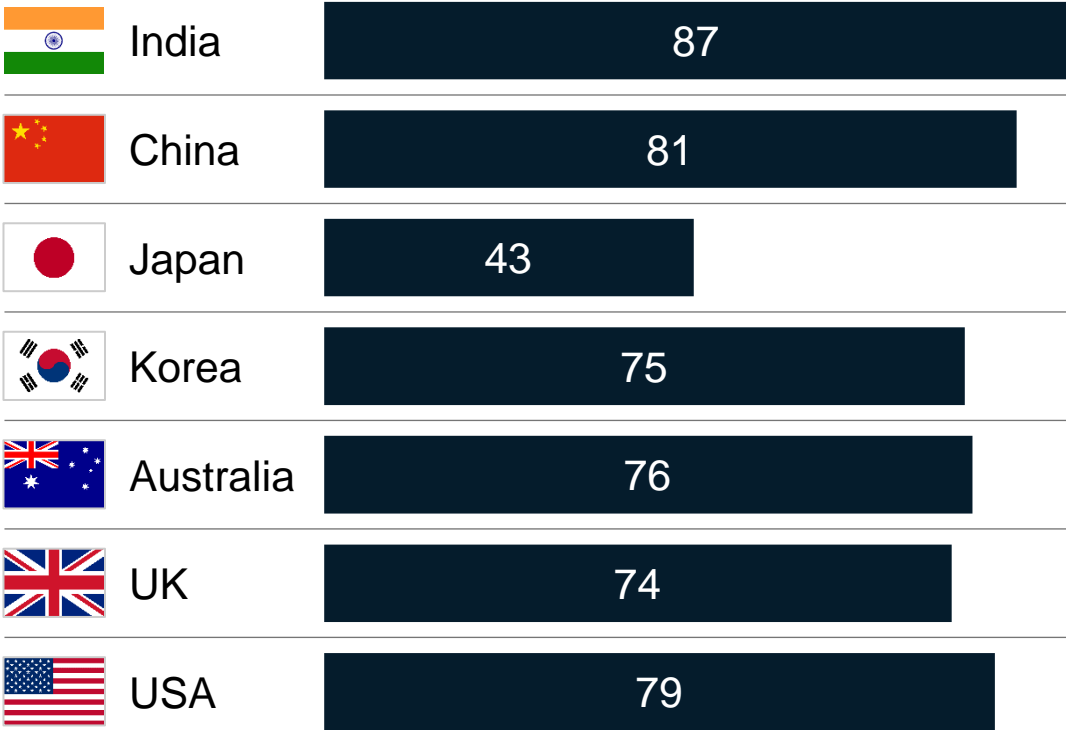


Source: McKinsey & Company Consumer Pulse Survey, Q3 2023

Zero moderation: consumers are scrimping ...

Consumers planning to purchase less or switch to a cheaper brand due to price increase

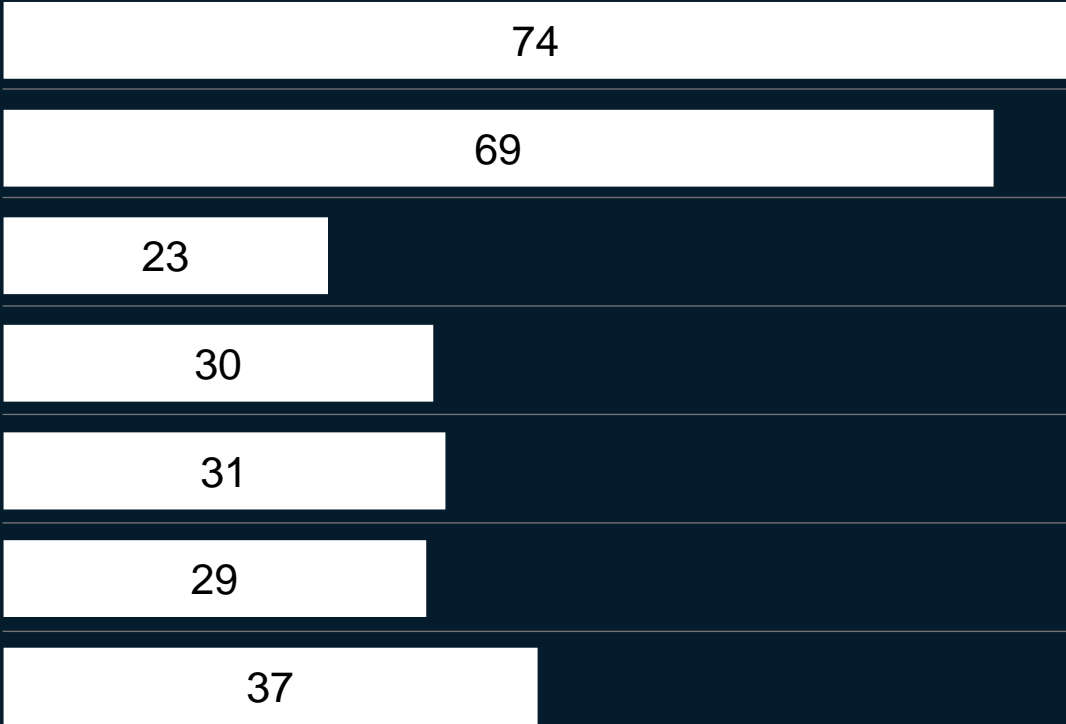
% of respondents



...and splurging

Intention to splurge

% of respondents who plan to splurge or treat themselves








Zero loyalty: Consumers experiment



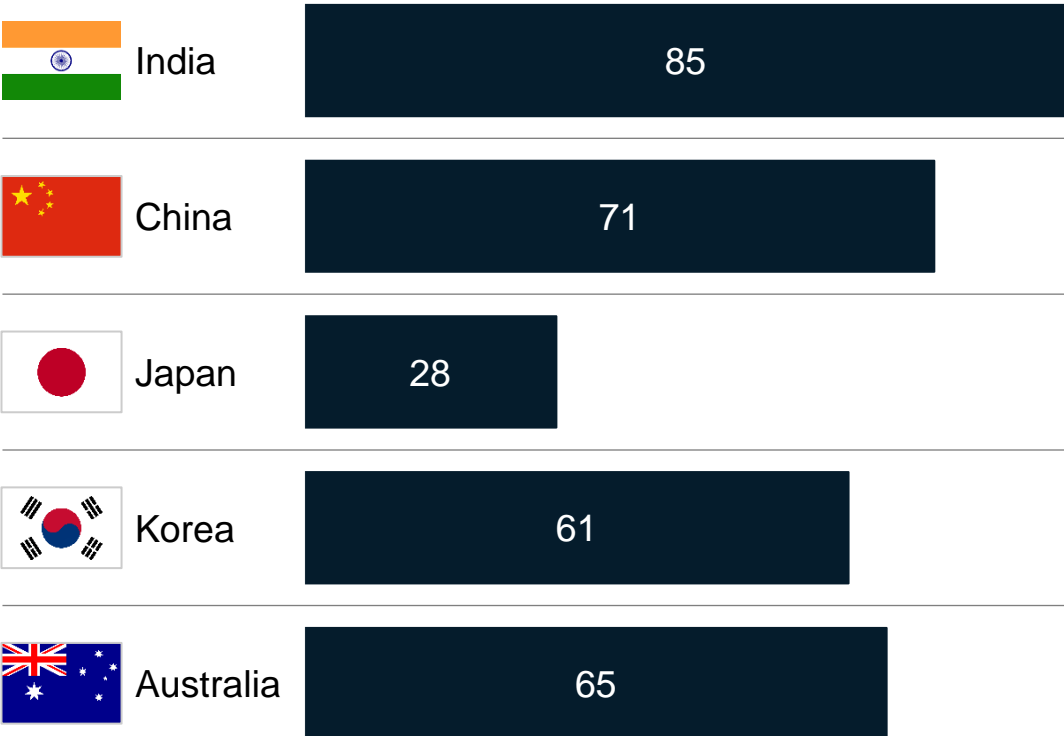
Percentage of respondents who have tried the following since Covid-19 began

% of respondents

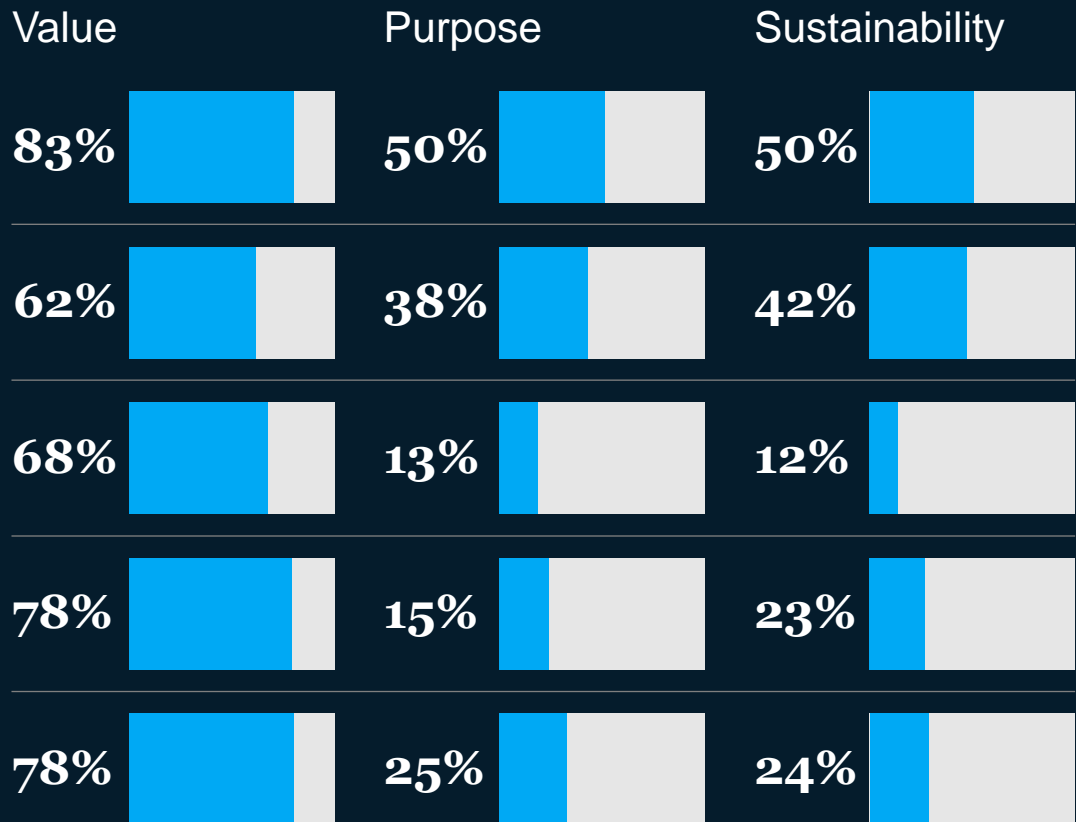
| |  India |  China |  Japan |  Korea |  Australia |
|--|---|---|---|---|---|
| New shopping behavior | 87% | 83% | 32% | 67% | 63% |
| New shopping methods incl. curbside pickup and/or delivery | 40% | 33% | 4% | 13% | 14% |
| New digital shopping method | 50% | 30% | 7% | 29% | 20% |
| Different retailer/store/website | 64% | 41% | 14% | 35% | 35% |
| Different brand | 52% | 39% | 12% | 35% | 47% |
| Private label/store brand | 32% | 34% | 12% | 27% | 28% |

(Net) zero: Purpose and sustainability – But after value

% of respondents who tried different stores or brand in past 3 months



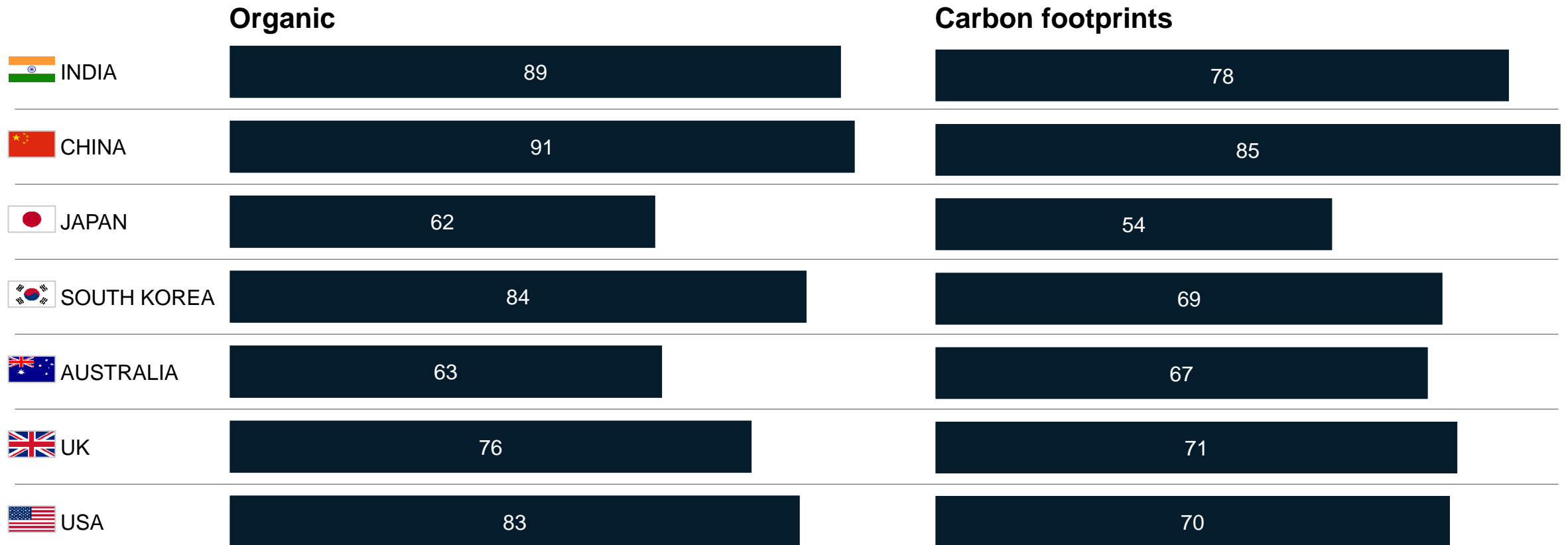
% of respondents selected reasons



Source: McKinsey & Company Consumer Pulse Survey, Q3 2023

(Net) zero: Sustainability Features

% of Respondents who are willing to pay a premium for Sustainability features when it comes to Groceries



Retailers in Asia are reinventing their relationships with customers, suppliers, employees, and investors



Zero boundaries

Reimagine the omnichannel world including adjacencies, pursuing “share of life” and profit parity



Zero mid-range

Refresh your offer with value and premium, including fresh and private brands



Zero loyalty

Rethink purpose and drive personalization at scale enabled by loyalty



Net zero

Reshape your societal footprint including environment & health

Your McKinsey Value Intelligence team



Marcus Jacob
Senior Partner,
Berlin



Gizem Gunday
Partner,
London



Meeke de Jong
Associate Partner,
Amsterdam



Stijn Broekema
Solution
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Amsterdam



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