

What's In Store? Issue 55

The Secrets To Online Retail Success

■ Industry Overview

- **Australian retailers online upside** — Australian retailers have spent 2012 raising the standard of their online offer. In Issue 55 of *What's In Store?*, we address whether they have come far enough. Our scorecard highlights JB Hi-Fi, Masters, Dotti and Rebel Sport as the most advanced websites. However, the real prize will come from higher marketing spending and lower prices (& free shipping). The biggest sales opportunity exists for Orotan, Premier Investments, Specialty Fashion and Myer where there is 5%+ sales upside.
- **Online penetration** — Australian online retail sales are \$13 billion on our estimates. This is 5% of all retail sales, and represents 10% of non-food retail sales. The ASX-listed retailers are missing out on this spend. eBay is almost 1/3 of online sales in Australia and we estimate Amazon is another \$1 billion alone. Australians are internet savvy and very price conscious when shopping online.
- **A flashy website does not equal success** — We publish Citi's Online Retail Scorecard for all our retailers. There are 25 attributes for success. The good retailers like JB Hi-Fi and Masters have moved beyond a flashy front page. Quality product information, order status, contact centre and free shipping are important.
- **Success online is no different to in stores** — Australian retailers have poor conversion rates at less than 1% for many, versus 2%-4% for US peers. See the table below for the sales upside for each retailer by improving either conversion, or web traffic. The profit model online is compelling, so long as the transaction is incremental. The EBIT margin could be 16% incremental, but if the sale is cannibalized from stores, that margin falls to 1%.
- **Citi Retail Sales Indicator up 3.6% in October 2012** — Retail spending remains below trend but less volatile. The weakest categories are furniture and electronics.

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Retailer opportunities online (Citi perspective)

Stock	Website	% Sales online	Citi online scorecard	Limiting factor	Online sales upside (%)
Billabong	www.surfstitch.com/	4.3%	74%	Traffic & service	+3.1%
David Jones	www.davidjones.com.au	0.4%	56%	Conversion rate	+4.5%
Harvey Norman	www.harveynorman.com.au/	1.3%	70%	Conversion rate	+2.2%
JB Hi-Fi	www.jbhifi.com.au	1.5%	84%	Conversion rate	+3.6%
Myer	www.myer.com.au	0.4%	68%	Conversion rate	+5.0%
Orotan	www.orotan.com.au	5.5%	68%	Traffic	+14.0%
Premier Investments	www.justjeans.com.au	0.7%	68%	Traffic	+10.6%
Specialty Fashion	www.millers.com.au	0.7%	64%	Conversion rate	+13.4%
Super Retail Group	www.supercheapauto.com.au	0.4%	62%	Service & Price	+4.9%
Wesfarmers	www.coles.com.au	0.7%	70%	Traffic & price	+2.3%
Woolworths	www.woolworths.com.au	0.7%	54%	Traffic & price	+1.8%

Over 5% sales upside is shaded. Source: Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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What's In Store? Issue 55

Australian listed retailers are scrambling to catch up in the online race. In Issue 55 of What's In Store?, we identify the factors that drive success online. Citi's Online Retail Scorecard ranks the retailers websites on 25 attributes. Amazon is a clear benchmark. JB Hi-Fi, Masters (WOW), Dotti (PMV) and Rebel Sport (SUL) are most advanced. However, a shiny website is not enough. The key drivers online are the traffic to the site and the conversion rate. Most Australian retailers lag. By spending more in online marketing and sharpening the price offer (including free shipping), we see significant sales upside. The strongest sales gains could come from Oroton, Premier Investments, Specialty Fashion and Myer, who could all increase group sales by at least 5% through their online channel.

What does online retail success look like?

Australian online retail spending is growing at greater than 20%, per annum, but the growth is disproportionately going to eBay and offshore retailers. Over the past year, most ASX-listed retailers have re-launched their websites, or increased investment into their sites. But will these retailers catch up? We analyse the following issues for online retailing:

1. Where are Australians really shopping online and why?
2. How do Australian retailers score in terms of their websites? We provide a scorecard ranking of customer interaction, website usability, use of promotions, product range and service.
3. The drivers of higher online sales and tipping point for profitability, which is driven by the website traffic and conversion rate.

The sales upside from online could be significant. Some retailers need to drive more traffic to their site, while others need to sharpen price points and improve service in order to increase conversion rates. In Figure 1, we show the upside which is greater than 5% of sales for Myer, Oroton, Premier Investments (Just Jeans) and Specialty Fashion (Miller's). Within this report, we explain the drivers for this online sales upside.

Figure 1. Retailer opportunities online (Citi perspective)

Stock	Website	% Sales online	Citi online scorecard	Limiting factor	Online sales upside (%)
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JB Hi-Fi	www.jbhifi.com.au	1.5%	84%	Conversion rate	+3.6%
Myer	www.myer.com.au	0.4%	68%	Conversion rate & range	+5.0%
Oroton	www.orothon.com.au	5.5%	68%	Traffic	+14.0%
Premier Investments	www.justjeans.com.au	0.7%	68%	Traffic	+10.6%
Specialty Fashion	www.millers.com.au	0.7%	64%	Conversion rate	+13.4%
Super Retail Group	www.supercheapauto.com.au	0.4%	62%	Service & Price	+4.9%
Wesfarmers	www.coles.com.au	0.7%	70%	Traffic & price	+2.3%
Woolworths	www.woolworths.com.au	0.7%	54%	Traffic & price	+1.8%

Over 5% sales upside is shaded. Source: Citi Research

1. Where are Australians really shopping online and why?

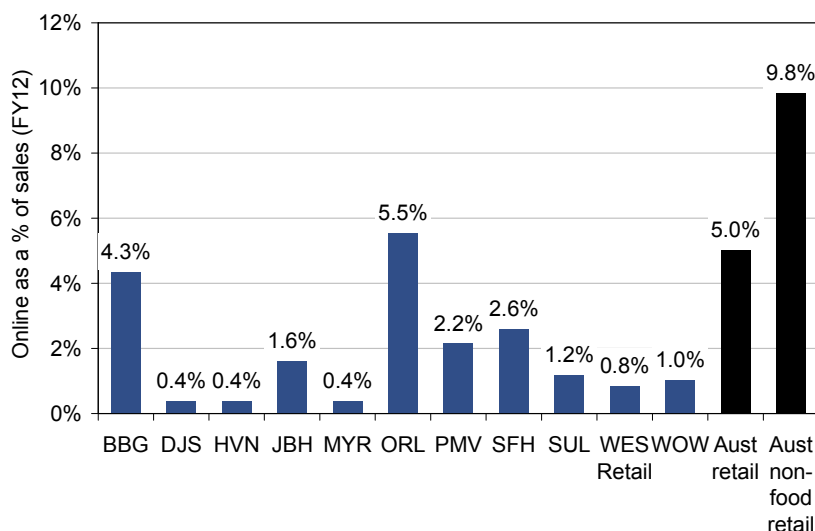
Australian online retailing is as developed as the US from a consumer perspective. However, from a retailer perspective, the incumbent retailers are laggards. We estimate total online retailing at \$12.7 billion for FY12, which equates to 5.0% of all retail sales. The equivalent statistic in the US is 4.8% of sales.

There are two distinctions worth making:

1. **Non-food online share is much higher.** We estimate only \$1 billion is sold online in Food & Liquor. The non-food retail share of sales made online is 9.8%. The strongest categories are computers, software and books.
2. **Offshore online sales represent 28% of the \$12.7 billion.** This reflects a strong Australian dollar, goods and services tax advantage of 10% and a broader range of products.

We show the online retail sales percentage for ASX-listed retailers in Figure 2. The data highlights the poor online penetration for listed retailers. The sales are leaking to unlisted competitors.

Figure 2. Size of online sales (FY12)

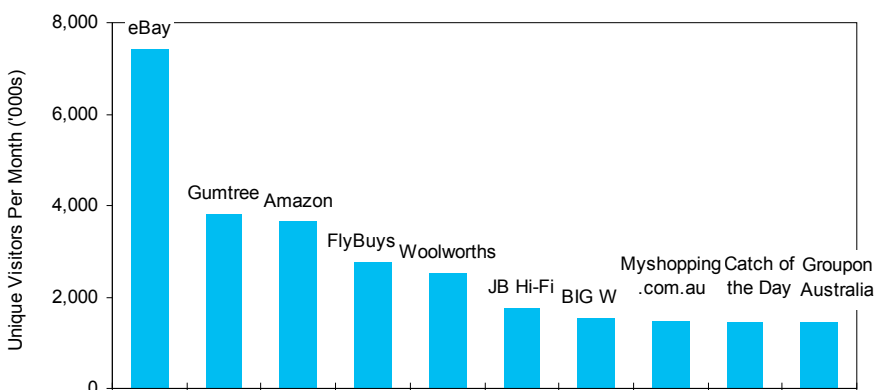


Source: Citi Research estimates

What are popular websites?

According to the ABS, 79% of Australian households access the internet. Australia also has a high smartphone penetration. The strongest website traffic is for eBay, its sister company Gumtree and Amazon. We show the website traffic measured by Nielsen in Figure 3. The strongest Australian-company owned website is FlyBuys, which is not transactional. Woolworths, Australia's largest supermarket has the strongest traffic flow.

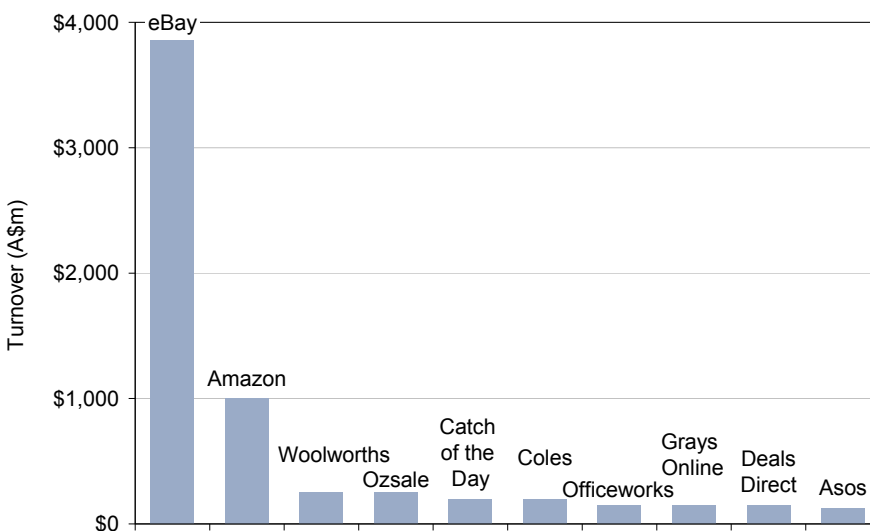
Figure 3. Top ten websites in Australia by unique traffic



Source: Nielsen, Citi Research

We estimate eBay accounts for 30% of all online retail sales. The next largest is Amazon. We estimate Woolworths is the next largest at \$250 million, far below Amazon. We estimate three of the top 10 online retailers are "bricks and clicks" (multi-channel) retailers.

Figure 4. Estimated top ten Australian retailers by online sales (FY12)



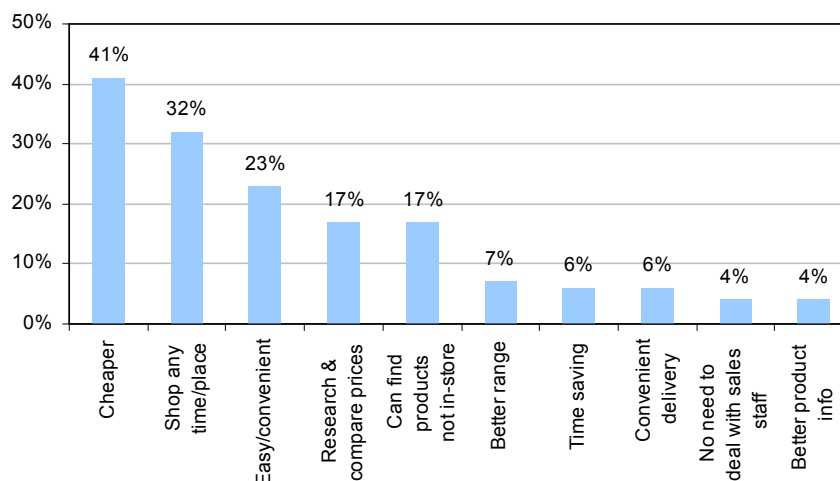
Source: Citi Research estimates

Why do people shop online?

In broad terms, customers "shop" anywhere for one of three reasons, which are price, range, or service. Online retailing is dominated by price. The success of eBay is evidence of that. Note that approximately 80% of eBay's sales volume is new items, not second-hand purchases.

In Figure 5, we show the reasons why Australian's shop online. 41% of shoppers nominate cheaper prices as the main reason. It is also worth noting that many of these people also nominated the convenience of "anywhere" retailing online, compared with the physical and time-driven constraints of stores.

Figure 5. Benefits of shopping online (%survey responses)



Source: Telstra, Nielsen, Citi Research

2. What makes a good eCommerce website?

Australian listed retailers have spent time overhauling their websites. However, a flashy homepage will not drive sales. The attributes that make a store successful, such as good range, attractive prices and superior service also apply online.

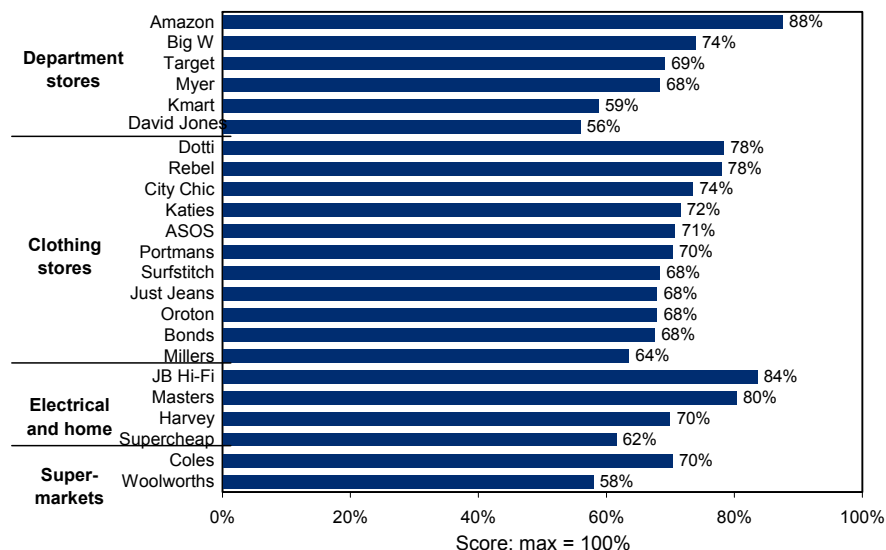
We have conducted a survey of the quality of each retailer's website. Citi Research's website score is measured out of 100% and reflects the attributes outlined in Figure 6. Of the local retailers, JB Hi-Fi, Masters and Dotti scored highest. David Jones and Woolworths Supermarkets scored lowest. We summarise the scorecard results in Figure 7.

Figure 6. Citi Research Website Index Scoring System

Interaction	Usability	Service	Promotion	Product
Social Networking Links	Clicks to Purchase	FAQ	Special Online Sales	What's New page
Email a Friend	Search	In store availability	Clear pricing info	Bundling &/or recommendations
Video	Mobile Commerce	Return to store	Free Shipping	Zoom-in feature
Customer Review	Payment Methods	Order status/tracking (0.5)	Unique online products	Recommendations
Chat Support	Express Checkout (0.5)	Membership (0.5)	Price matching	Product Details or Size Chart
	Wish List (0.5)	Store Locator (0.5)		
		Phone contact available (0.5)		

Note: 0.5 bonus points also available for companies with a blog or detailed product/fabric information.
Source: Citi Research

Figure 7. Citi Research Website Index Scores



Source: Citi Research

What differentiates a good site from a bad site

In our study of each retailer's website, we found the devil was in the detail. The interface was usually good, but service attributes and range separated the scores. We note the following:

- **Product:** Ensuring that most if not all of the product range online is essential, as is telling shoppers about new items. Some sites have unique ranges only available online.
- **Zoom-in and photos:** Being able to look closely at items and graphics are crucial. This isn't cheap and requires a team dedicated to cataloguing the product.
- **Free shipping:** Free shipping seems have become standard affair online. Some retailers have a minimum spend, but many are free. Of course shipping is not free and our rule of thumb is it detracts 10% from margins.
- **Chat support:** Very few online retailers get customer service right. Online chat support is only used by Surfstitch, but all domestic websites provide phone numbers to call.
- **In-store availability or Click and Collect:** Click and Collect is very popular in the UK, where online retail penetration is highest in the developed world. Nearly half the transactions are click and collect for large players like John Lewis and Marks & Spencer. Developing the inventory system for live store level inventory is expensive, especially as the technology needs to be rolled out to every store.

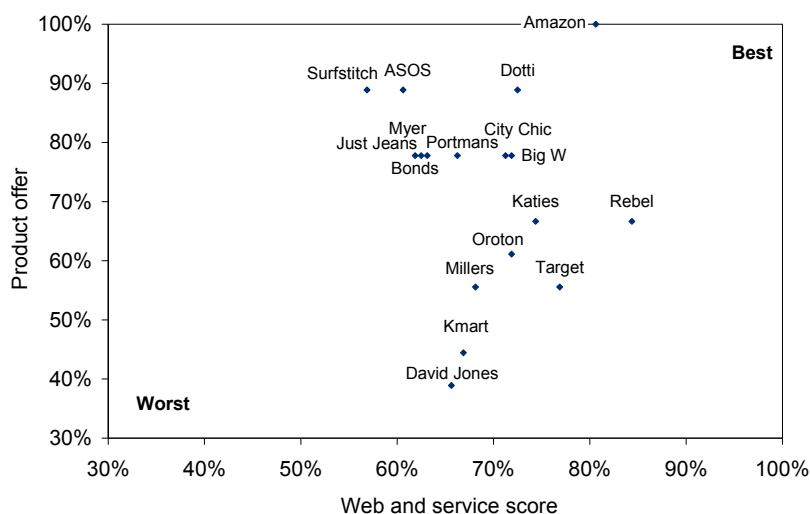
For more information about the detailed score sheet for our listed retailers, please contact any team member on the front of this report. Below we discuss the scores broken down between website/service (interaction, usability and customer service) and product offer (product and promotion).

Softgoods retailer performance - web/service vs product offer scores

The best performer in softgoods retailing online are Big W, Dotti and Rebel Sport. Big W and Dotti, along with ASOS and Surfstitch had stronger product offerings. This better score is most closely tied in with good online promotional activity. However, some of these sites scored poorly on website and service.

The strongest in terms of website and service is Rebel Sport. Attributes here include reduced clicks to purchase, customer reviews and order tracking.

Figure 8. Softgoods retailer scorecard

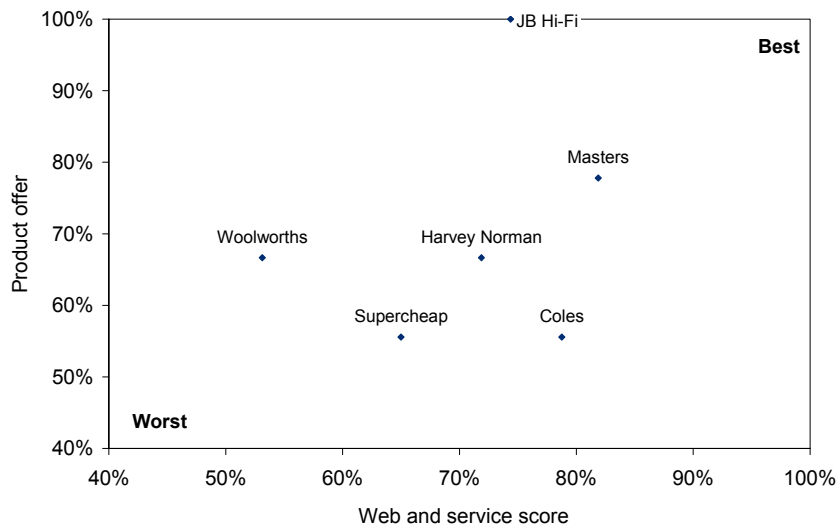


Source: Citi Research

Hardgoods retailer performance – web/service vs product offer

In hardgoods, we saw the strongest performance from JB Hi-Fi and Masters. In fact these retailers stand-out across all retailing. They offer multiple interaction channels, special online promotions, free shipping and high levels of service.

Figure 9. Hardgoods retailer scorecard



Source: Citi Research

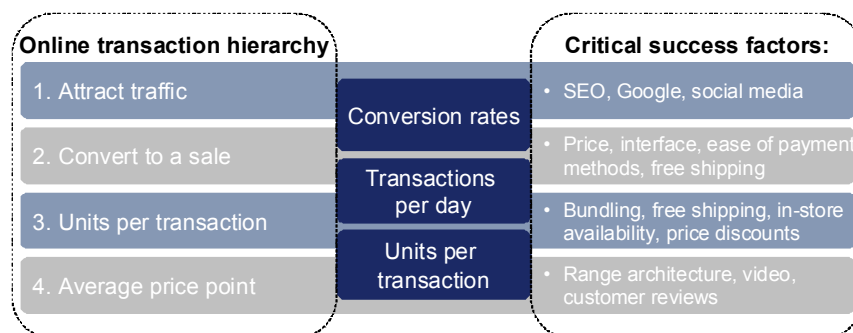
3. What are the financial measures of success?

A successful online retailer is just like a store. Success arises when the retailer:

- **Attracts traffic:** This is done through search-engine optimisation (SEO), Google Adwords, banner ads and social media. It can also be done in traditional media channels as eBay and The Iconic have done recently.
- **Converts to a sale:** This is the crucial element clearly. The most fundamental attribute for conversion success is the right price. Many Australian retailers have poor conversion rates, which tells us the price is not right. Other conversion factors include payment methods and use of free-shipping. In conversion, we assume the retailer has the right inventory in-stock.
- **Drives units per transaction:** By this step, a retailer is successful and looking for incremental growth. The number of items per transaction can grow through bundling, free-shipping offers, offering in-store pick-up, or simply through price discounting.
- **Increases average price point:** The last lever to pull to drive higher online sales is the price point. It's almost impossible to do that with price increases alone. The average price paid per item will rise when a retailer has the right product mix. The right mix is a well edited range including value, mid-priced and premium products. This is rare.

In Figure 10, we show the online transaction hierarchy and the drivers for success. We discuss the retailer's performance on these levels.

Figure 10. Online retail transaction hierarchy



Source: Citi Research

1) Attracting shoppers is the key

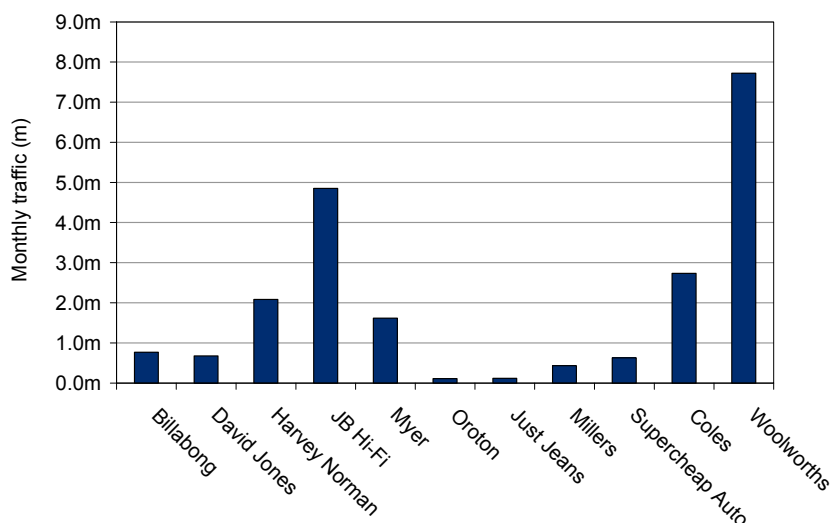
Most Australian retailers need to build traffic. They are not spending enough on marketing. The exceptions are Harvey Norman, JB Hi-Fi and Woolworths. These retailers either have sufficient brand awareness or marketing spend.

We show the website traffic, as measured by Nielsen in Figure 11. The highest is Woolworths at almost 8 million website visits per month. The average online user is looking at Woolworths three times each month. It is interesting to reflect that Woolworths has 872 supermarkets versus Coles at 749. Woolworths has 16% more stores, but almost three times the traffic of Coles.

The weakest website traffic retailers relative to their store base are:

- **Just Jeans** - Just Jeans has over 200 stores in Australia and attracts monthly visits of 121,000 people. The Gap has 1,016 stores in the US and attracts traffic of 30 million each month.
- **Supercheap Auto** - As a mature retailer, Supercheap Auto has 281 stores, but only 629,000 website visits each month. In this case, the offshore benchmark Autozone has a similar low traffic level, which may indicate the autoparts category is not conducive to online sales.

Figure 11. Monthly website traffic for October 2012



Source: Nielsen, Citi Research

2) Conversion differentiates a good website from a poor website

The bigger, broader failing by Australian listed retailers is their conversion rate. Clearly, many Australian shoppers use Australian retail websites to research, find locations or trading hours, but most do not convert to a transaction. Conversion rates are mostly less than 1%, compared with US retailers at 2-4%.

Higher conversion rates will primarily improve through lower prices. However, the use of free shipping, a good website navigation and simple payment processes are also important.

We show the conversion rates for Australian retailers compared with offshore benchmarks in Figure 12. The strongest conversion rates are for:

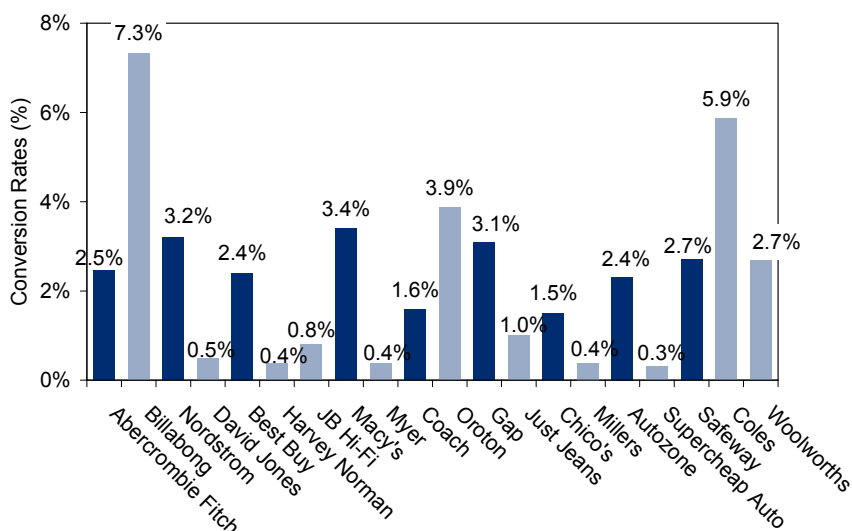
- Surfstich (Billabong)
- Orotan
- Coles
- Woolworths (supermarkets)

The weakest conversion rates are for:

- David Jones

- Harvey Norman
- Millers
- Myer
- Supercheap Auto.

Figure 12. Website online retail conversion rate (estimates for Australian retailers)

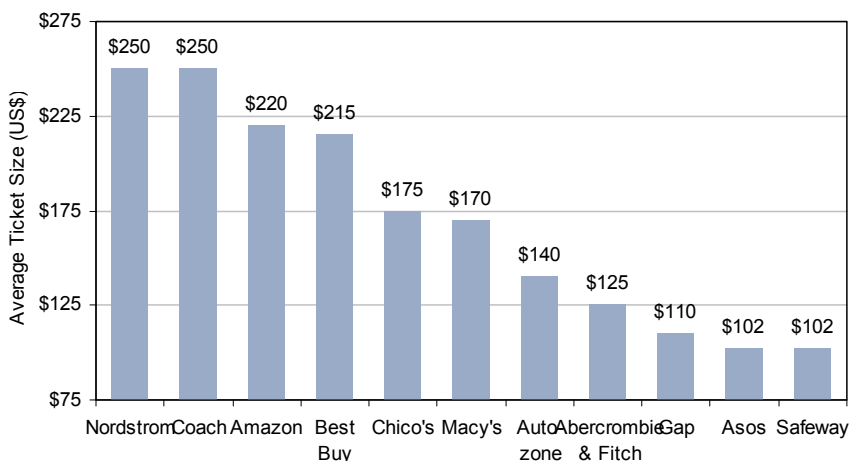


Source: Internet retailers, Nielsen, Citi Research estimates for Australian retailers

3) Then it's about items in the basket and total basket size

The transparency around basket size is very limited for Australian retailers. In Figure 13, we show the average basket size for various US retailers, considered comparable companies to Australian retailers. The basket size is clearly correlated with product category.

Figure 13. Average transaction (basket) size for US online retailers



Source: Internet Retailer, Citi Research

Profitability depends on incrementality

Clearly, the most important attribute online is profitability. On first glance, the retailer profitability can appear lucrative. However, the competitive outcome may be far worse. We provide an illustrative example using Myer. The profitability falls from 16% EBIT margin if online sales are incremental to store sales, to a 1% EBIT margin if the sale actually cannibalises a store.

We show the profit structure of an online transaction, compared with a bricks and mortar transaction. We also show ASOS, to provide a benchmark for an online pure play. For a Myer store transaction, the gross margin will be near 41%. The retailer has operating costs of 33.7% of sales. We estimate the average store transaction is \$79 in Myer, leading to \$6 of EBIT.

Switching to an online transaction, for Myer, we estimate the average transaction will be nearer to \$150, while the gross profit margin will be 5% lower at 36%. This reflects the price awareness shoppers have for an online transaction. The operating costs are small. The product will be picked from a store and we assume free shipping, which results in 10% of sales absorbed in distribution costs. The "overheads" online are marketing (customer acquisition costs, which are at least \$3, but sometimes over \$10 per transaction) and website maintenance (updating each SKU in terms of product details and photos). We put these overheads at \$10.

In column labelled (1) in Figure 14, we show the profit structure for an online transaction that is all incremental to Myer. The profit on a \$150 transaction is \$24, or 15.9% EBIT margin. Then in the column labelled (2), we show the disappearing profit when the online sale cannibalises its store sale. The transaction value is the same, as is the gross profit, but all the store costs remain in place, and the overheads are higher. The "store overheads" are buying, design and operations to run the entire business. The "online" overheads are marketing and website maintenance. The profitability now falls to \$2 on a \$150 transaction, or 1.2% EBIT margin.

Figure 14. Online retail profitability (per transaction) – only works if its incremental

	(1) OR		(2)		
	ASOS	Myer stores	Myer online (all incremental)	Myer online (if sale takes from a store)	
Transaction value*	£41	\$79	\$150	\$150	Transaction is bigger online
Gross profit	£21	\$32	\$54	\$54	
Store costs	£0	\$20	\$5	\$20	All store rent and staff
Distribution costs	£8	\$2	\$15	\$17	Free shipping to customer
Overheads	£9	\$5	\$10	\$16	Additive overheads
EBIT	£3	\$6	\$24	\$2	
Gross margin	51.8%	41.0%	36.0%	36.0%	Same gross margin
EBIT margin	8.1%	7.3%	15.9%	1.2%	Margin disappears

* net of taxes.

Source: Citi Research estimates

Conclusion

The online sales opportunity for Australian listed retailers is large. They are at the early stages of development. We have provided an estimate of the sales upside for each retailer, based on the website traffic potential and improved conversion rate if measured against US peers. Our Online Scorecard provides a framework to assess the limiting factors in driving more online sales through conversion.

In Figure 15, we summarise the sales upside from online for each retailer. The largest upside exists for Oroton, Premier Investments, Specialty Fashion and Myer. For each of these retailers, more website traffic will help. For some, like Myer and Specialty Fashion, more investment in their website functionality, service and range will drive online sales.

Figure 15. Online retail sales opportunity for Australian retailers

Stock	Website	% Sales online	Limiting factor	Comment	Sales upside (\$m)	Sales upside (%)
Billabong	www.surfstitch.com/	4.3%	Traffic & service	Website needs better service and usability	48	+3.1%
David Jones	www.davidjones.com.au	0.4%	Conversion rate	Website needs better service and usability	84	+4.5%
Harvey Norman	www.harveynorman.com.au/	1.3%	Conversion rate	Free delivery and lower prices	108	+2.2%
JB Hi-Fi	www.jbhifi.com.au	1.5%	Conversion rate	Automatic order tracking, express checkout	106	+3.6%
Myer	www.myer.com.au	0.4%	Conversion rate & range	Increase SKUs online, automatic order tracking	159	+5.0%
Oroton	www.orothon.com.au	5.5%	Traffic	Zoom in feature, wish list, competitive pricing	26	+14.0%
Premier Investments	www.justjeans.com.au	0.7%	Traffic	SEO and mass-marketing	22	+10.6%
Specialty Fashion	www.millers.com.au	0.7%	Conversion rate	Free shipping, online promotions	39	+13.4%
Super Retail Group	www.supercheapauto.com.au	0.4%	Service & Price	Free delivery, lower prices.	36	+4.9%
Wesfarmers	www.coles.com.au	0.7%	Traffic & price	Lower prices relative to stores	599	+2.3%
Woolworths	www..woolworths.com.au	0.7%	Traffic & price	Lower prices relative to stores	671	+1.8%

Source: Citi Research

Appendix - Survey questions and measures

Citi's Website Index is based on five key feature categories of websites. These are the level of interaction, user friendliness, service, website promotional activity and product offering. In order to remain consistent, points are awarded where the feature is clearly visible. Each category is further broken down into sub categories – for example, "Interaction" includes attributes such as social networking links, chat support and the ability for customers to post product reviews.

Each of the five categories is worth a total of 5 points, with the exception of the product category which totals 4 points. Where websites demonstrated a particular feature we gave one full point, except for minor features which earned ½ points (shown below). An additional ½ bonus point was awarded where a website offers rare features such as a blog or detailed fabric or technology information.

For the 'clicks to purchase' sub category, 1 point was awarded for 5 clicks or less, 0.8 points for 6 clicks, etc. For 'payment methods', 1 point is awarded for those sites offering 10 payment methods, 0.9 points to those offering 9 payment methods, and so on.

Figure 16. Citi Website Scoring Methodology

Category	Description	Points
Interaction		
Social Networking Links	Links to Facebook, Twitter, Pinterest, Youtube	1.0
Email a Friend	Option to email the website location	1.0
Video	Either video on the website or link to a Youtube channel	1.0
Customer Review	Customer reviews available to be posted on each page	1.0
Chat Support	Live chat support to deal with any customer queries	1.0
Interaction total		5.0
Usability		
Clicks to Purchase	Number of clicks from start of shopping page to complete transaction	1.0 for 5 clicks or less, 0.8 points for 6 clicks or less, etc.
Search	Option to search for keywords or products within the website.	1.0
Mobile Commerce	Dedicated mobile phone website	1.0
Payment Methods	Number of payment options, e.g. Paypal, Visa, Mastercard	1.0 for 10 options, 0.9 for 9 options, etc.
Express Checkout	Option for one-click checkout	0.5
Wish List	Option to save preferred goods into a watch list	0.5
Usability total		5.0
Service		
FAQ	Answers to typical customer questions	1.0
In store availability	Real time ability to check specific inventory at a physical store	1.0
Return to store	Option to return goods purchased online to a physical store	1.0
Order status/tracking	Automated order tracking so customers can see where the product is and a more accurate estimate of delivery time.	0.5
Membership	Option to join a brand club, to receive benefits and/or promotional newsletters/emails	0.5
Store Locator	List of store locations or option to search for the nearest store to you	0.5
Phone contact available	A clear contact number to call to speak to a person.	0.5
Service total		5.0
Product		
What's New page	A dedicated page to demonstrate newest products available	1.0
Bundling &/or recommendations	Related goods suggested in combination with product, eg "customers who bought this also bought"	1.0
Zoom-in feature	Ability to zoom in on a particular area of a product image (ie: not just a larger image)	1.0
Product Details or Size Chart	Sizing measurements or detailed product information	1.0
Product total		4.0
Promotion		
Special Online Sales	Online-only sales to drive traffic	1.0
Clear pricing info	Prices listed are clear to see & understand	1.0
Free Shipping	No delivery fees	1.0
Unique online products	Products available online that aren't in physical stores	1.0
Price matching	Price promises to match competitor pricing for the same good	1.0
Promotion total		5.0
Bonus Points		
Blogs	Opinion and discussion pieces featuring most recent trends related to the brand	0.5
Detailed fabric/technology information	Highly detailed fabric or technology information.	0.5
Bonus total		1.0
Total points available		25.0

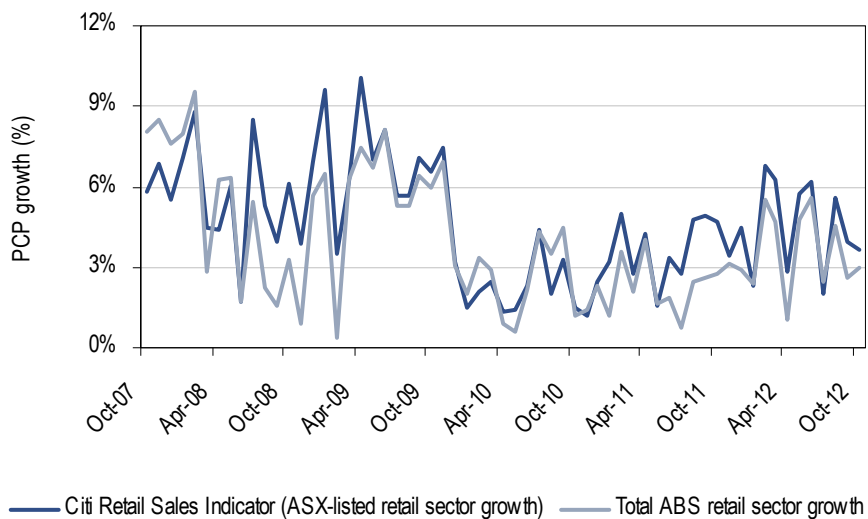
Source: Citi Research

Retail sector overview

Citi Retail Sales Indicator

Citi's Retail Sales Indicator measures the growth of retail sales weighted by the categories relevant to ASX-listed retailers. The indicator grew 3.6% in October 2012, above the ABS total retail sales growth of 3.0%.

Figure 17. Citi Retail Sales Indicator (retail sector sales growth for ASX-listed companies)



Source: ABS, Citi Research

Sector performance for October 2012

Figure 18. Retail category monthly growth rate on pcp (%)

Month ended:	Oct-11	Sep-12	Oct-12
Supermarket	4.4	4.2	4.0
Department	-4.1	1.6	2.7
Clothing	-3.5	1.7	2.6
Furniture,	1.7	-7.3	-4.8
Electrical	-1.0	2.0	-1.5
Hardware	5.8	5.6	1.7
Total (Industry)	2.8	2.6	3.0

Source: ABS, Citi Research

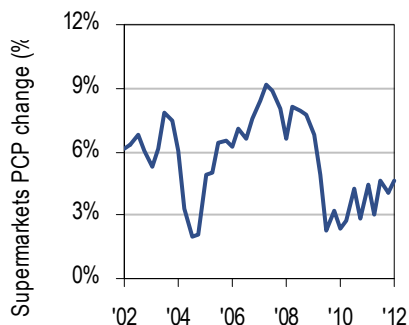
Australian Retail Sales stabilized in October 2012 at 3.0% growth, up from 2.6% in September 2012. Improvement was most evident in Department Stores and Clothing Specialties, which we believe benefitted from stronger fashions and more favourable weather.

Key Points

- **Food & Liquor** – Supermarket sales were down slightly at 4.0% growth in October 2012, from 4.2% in September 2012. Liquor sales fell from 2.4% in September 2012 to just 1.1% in October 2012. Food inflation has generally risen, albeit fresh produce was slightly more deflationary than September 2012.
- **Department Stores** – Department store sales rose to 2.7% in October 2012, versus 1.6% in September 2012. Whilst a positive change, we believe the discount department stores were weaker, particularly Target who lifted promotional activity.
- **Clothing Specialties** – Clothing sales surprised to the upside with growth of 2.6% in October 2012, up from 1.7% in September 2012. We see two key drivers for this result – 1) Stronger fashions – our feedback has been retailers with on-trend collections include Dotti (PMV), Crossroads (SFH) and Country Road. 2) Warmer, drier weather during the month – temperatures were 0.7°C warmer in October 2012 compared with October 2011, with four fewer wet days in the month.
- **Electronics** – October 2012 was a weaker month for electronics with sales sliding into negative territory at -1.5% growth, versus 2.0% in September 2012. Shoppers held back for new product launches which didn't hit the shelves until November (including Windows 8, computer games and full supply of iPhone 5 and iPad Mini).
- **Hardware & Furniture** – Hardware sales slowed to 1.7% growth in October 2012, and Furniture sales continued to be in decline at -4.8% growth (albeit an improvement from September's -7.3%). Housing churn is softer and first-home owners stimulus is still being unwound.

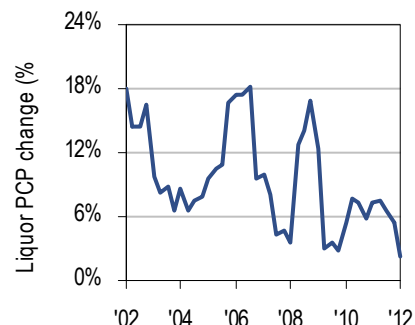
Sector specific performance – rolling 3 months to Oct'12

Figure 19. Supermarkets



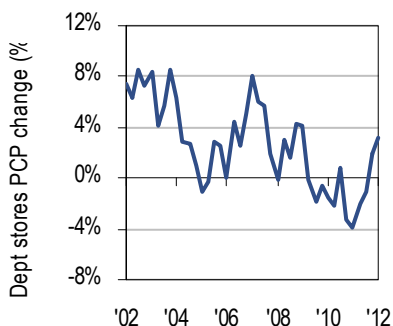
Source: ABS 8501.0

Figure 20. Liquor retailing



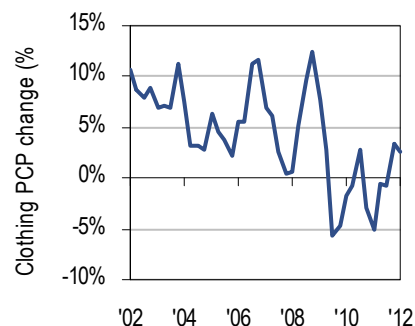
Source: ABS 8501.0

Figure 21. Department stores



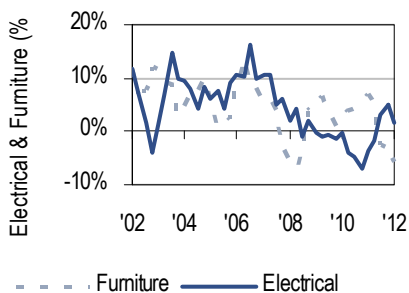
Source: ABS 8501.0

Figure 22. Clothing



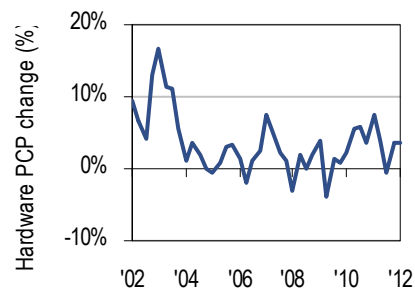
Source: ABS 8501.0

Figure 23. Electrical and Furniture



Source: ABS 8501.0

Figure 24. Hardware

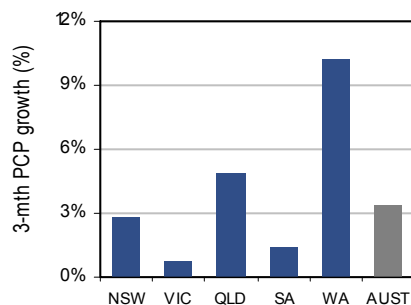


Source: ABS 8501.0

State based performance

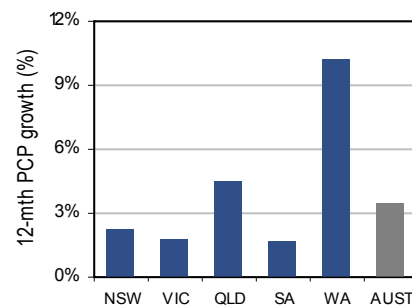
Figure 25 and Figure 26 show the quarterly and yearly sales growth performance for each state respectively.

Figure 25. 3-month sales growth by state



Source: ABS 8501.0

Figure 26. 12-month sales growth by state



Source: ABS 8501.0

Economic outlook

Citi Economists forecast a slightly slower pace of improvement in GDP growth in 2013, mainly as the mining strength is largely offset by weakness in other sectors.

Figure 27. Citi economic forecasts for Australia

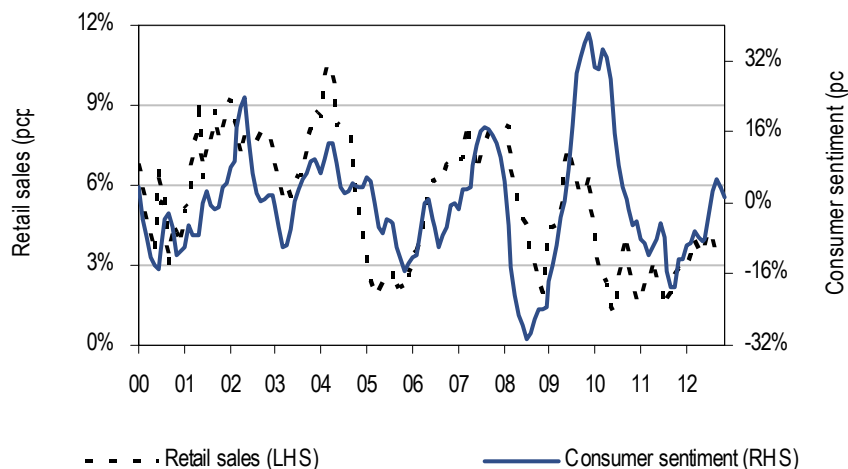
Calendar year	2011	2012	2013
GDP growth	1.90%	3.70%	3.10%
CPI	3.10%	2.60%	2.50%
Unemployment rate (end of period)	5.30%	5.40%	5.30%
Period	07-Dec-12	Jun-13	Dec-13
Cash rate	3.25%	2.75%	2.75%
AUD/USD	1.03	0.98	0.96

Note: Forecast data as of 7th December 2012; Source: Citi Research

Consumer Sentiment

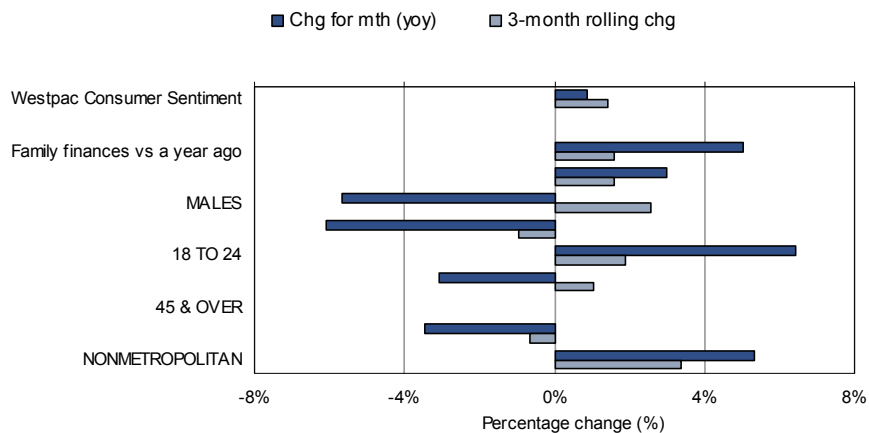
We find the change in consumer sentiment has a strong co-incident correlation with retail spending. In the most recent reading for November 2012, consumer sentiment was at 104.3. This is up 5.1% vs. October 2012, and up 0.9% compared to the prior year.

Figure 28. Consumer sentiment and retail sales



Source: Westpac - Melbourne Institute Survey of Consumer Sentiment Report, ABS, Citi Research

Figure 29. Consumer sentiment sub-components

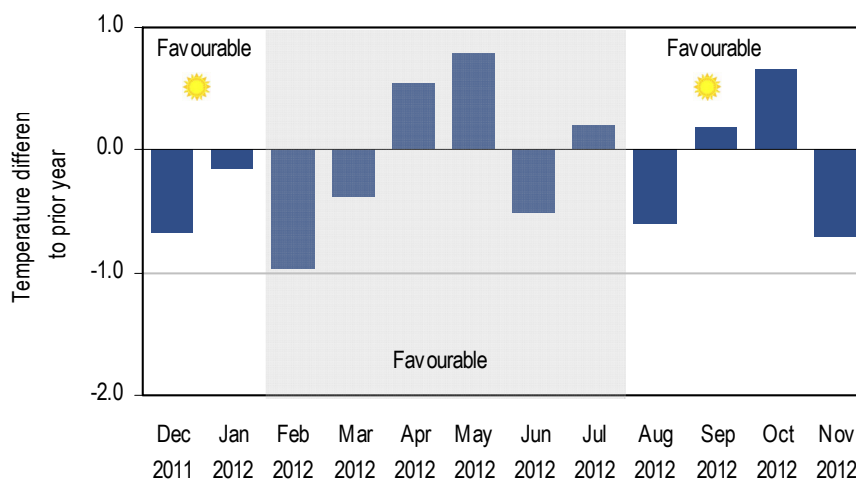


Sources: Westpac - Melbourne Institute Survey of Consumer Sentiment Report, Citi Research

Weather

Figure 30 shows the weighted average temperature difference to the prior year, in the past 12 months. Trend for summer fashion sales has been largely mixed with only 2/4 months experiencing warmer weather patterns.

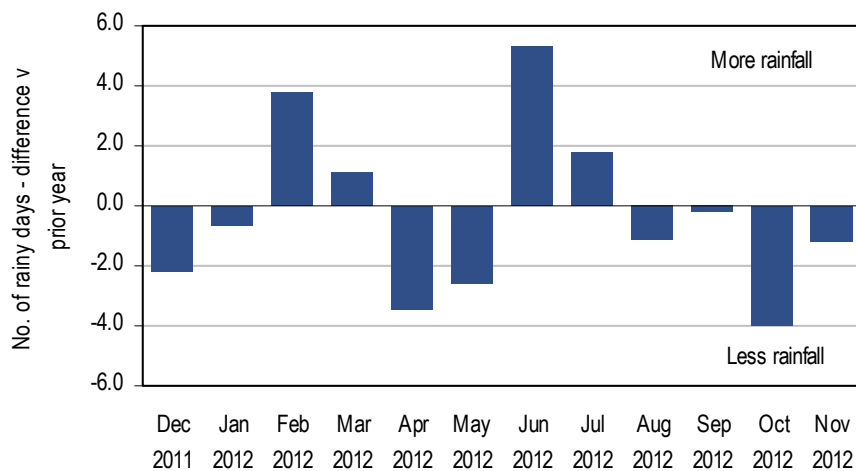
Figure 30. Temperature change - weighted national average



Source: BOM, Citi Research

Figure 31 shows the weighted average difference in rainfall days to last year.

Figure 31. Rainfall change – weighted national average

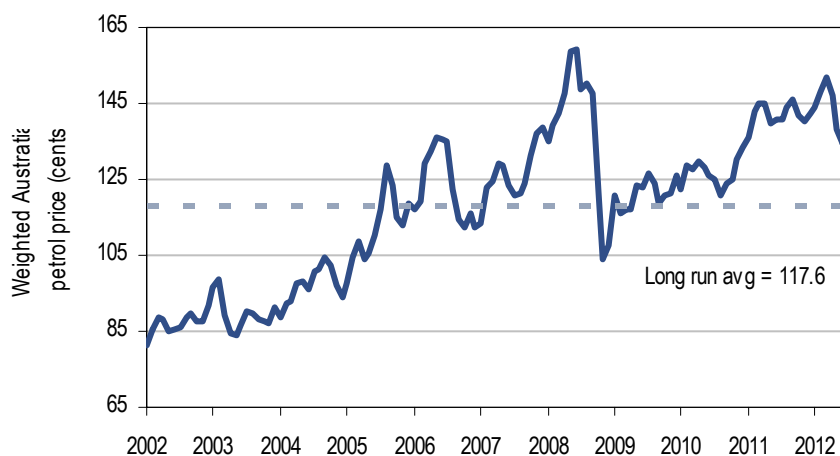


Source: BOM, Citi Research

Petrol prices

Petrol prices averaged 142.7 cents per/litre in August 2012. Prices are 1.5% higher compared to the last year. This is limiting household spending as their net cash in hand for retail is decreasing.

Figure 32. Australian petrol prices

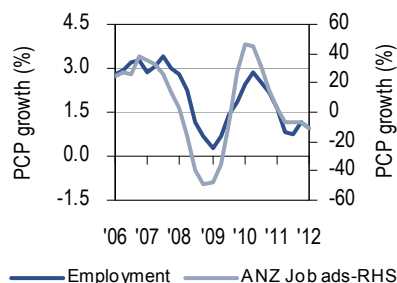


Source: Aust. Automobile Association

Employment

The jobs market recovered in 2010 and 2011 after a sharp decline during the 2008-09 global financial crisis. However, the job ads growth has been in decline since September 2011, with the latest reading at -15.0% for October 2012. The mining boom is being offset by weakness in other sectors. The unemployment rate for Australia has remained in the 5.4%-5.6% range in the three months to November 2012.

Figure 33. Employment and job ads growth



Source: ABS, ANZ

Figure 34. Unemployment rate

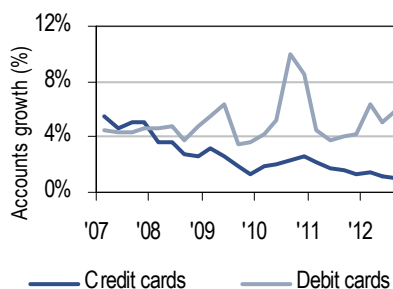


Source: ABS

Credit and debit card spending growth

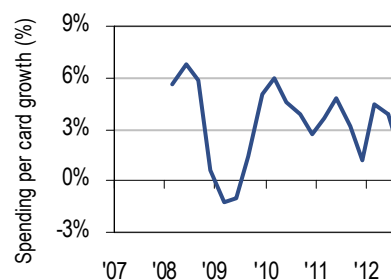
We show in Figure 35 to Figure 38, key Australian credit and debit card statistics. Debit card growth accelerated in 2011 through a combination of strong account growth and increased spending per debit card holder. This contrasts with credit card accounts that have had slowing spending growth per credit card.

Figure 35. Credit and debit card accounts



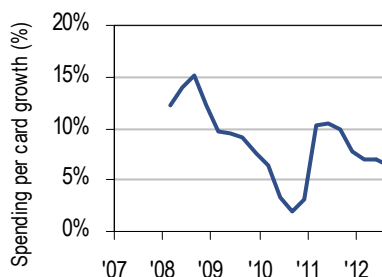
Source: RBA

Figure 36. Spending per credit card holder



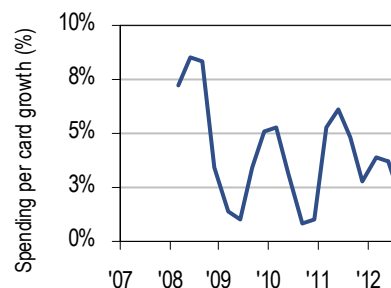
Source: RBA

Figure 37. Spending per debit card holder



Source: RBA

Figure 38. Spending per all card holders



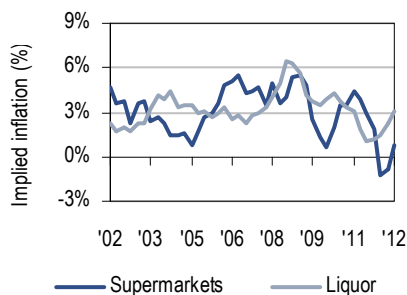
Source: RBA

Retail price inflation

- **Food & Liquor** – Supermarkets inflation turned positive in the September 2012 quarter mainly driven by reduced deflation in fresh produce. Liquor inflation however remained strong at 3% as brewers compromised volumes for additional pricing.
- **Clothing** – Clothing prices remained flat (down 0.2%) in the September 2012 quarter. In recent quarters, clothing experienced significant price deflation given strong competitive pressure, a higher Australian dollar and lower import tariffs. However, this slowed in September 2011 and the trend was inflationary (+1.4%) in the December quarter. Cotton price inflation is now flowing through retail but the competitive landscape is an offset.
- **Electronics** – After a brief period of supply disruptions and high metal prices, the deflationary trend seems to have returned in the electrical category. There is intense competition between suppliers. The category continued to be in a deflationary trend in the September 2012 quarter.

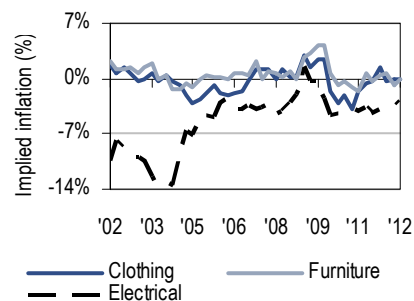
We show implied retail price inflation for a number of key categories in Figure 39 and Figure 40 below.

Figure 39. Food and Liquor inflation



Source: ABS, Citi Research

Figure 40. Non-food sector inflation



Source: ABS, Citi Research

Input cost pressures

- **Food & Liquor** – Input prices declined 3.7% on pcp, in the three months to November 2012 mainly driven by lower sugar, coffee meat and packaging material partly offset by higher soy and wheat.
- **Clothing** – Cotton prices have softened since their highs in February 2011 and continue to follow a slight deflationary trend. There is usually a 6-9 month lag between changes in spot prices and retail shelf prices. Overall, our input cost basket deflation continued in the 3-month period to November 2012.
- **Electronics** – In the 3-months to November 2012, our electrical input basket declined 1.1% as deflation in NAND more than offset the inflation in labour cost and packaging material.

We show our Citi input cost monitor for November 2012 on a monthly and rolling-three month basis in Figure 41 and Figure 42 below.

Figure 41. Citi input cost monitor (1 mth)

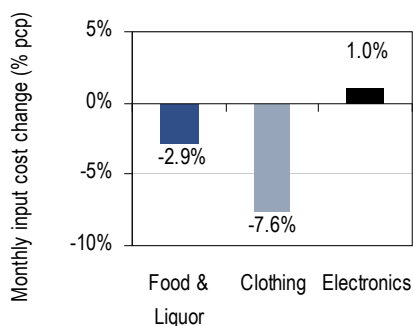
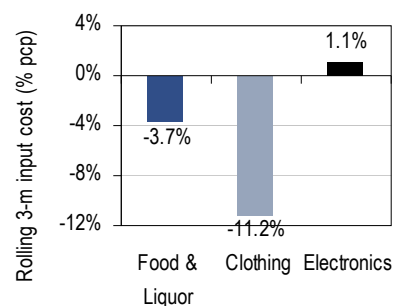


Figure 42. Citi input cost monitor (3 mths)

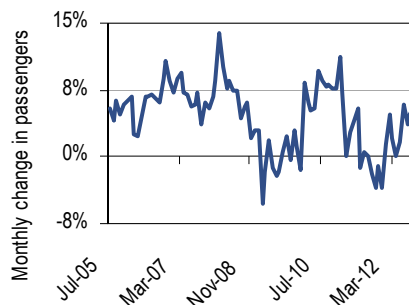


Source: Citi Research

On the move – transport indicators

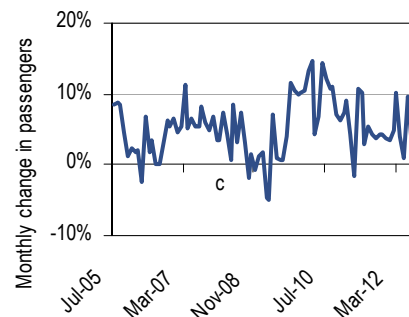
In Figure 43 to Figure 46 we show areas where consumers are “on the move”. We include air and road transport indicators as a guide to business and consumer activity. International travel remains strong, while domestic road-traffic has been declining, a sign of weak economic activity.

Figure 43. Change in domestic air passenger traffic (monthly)



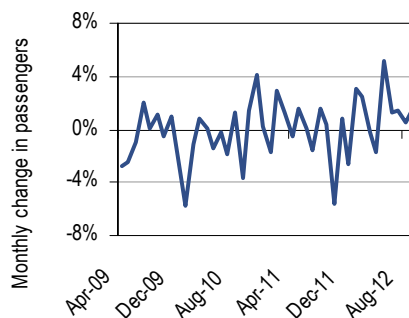
Source: Statistics New Zealand, Citi Research

Figure 44. Change in international air passenger traffic (monthly)



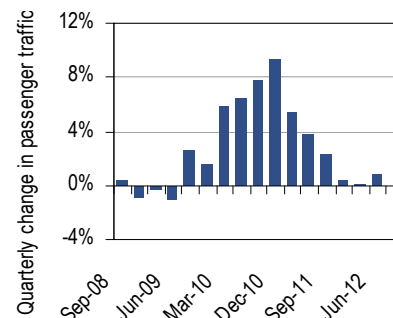
Source: Statistics New Zealand, Citi Research

Figure 45. Automotive fuel sales change against pc



Source: Statistics New Zealand, Citi Research

Figure 46. Change in quarterly road traffic volume at tolled roads



Source: Transurban, Citi Research

Kiwi corner

In Figure 47 we show Citi forecasts for New Zealand's key economic variables.

Figure 47. Citi economic forecasts for New Zealand

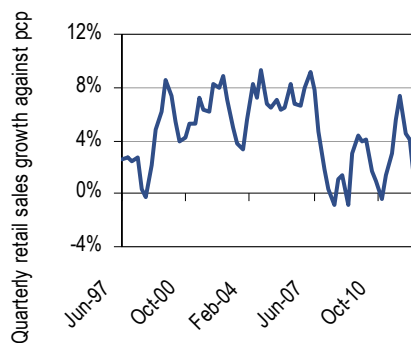
Calendar year	2011	2012	2013
GDP growth	1.30%	2.20%	2.30%
CPI	2.60%	1.60%	2.10%
Unemployment rate (end of period)	6.50%	6.60%	5.80%

Period	07-Dec-12	Jun-13	Dec-13
Cash rate	2.50%	2.50%	2.50%
NZD/USD	0.81	0.8	0.76

Note: Forecast data as of 7th December 2012; Source: Citi Research

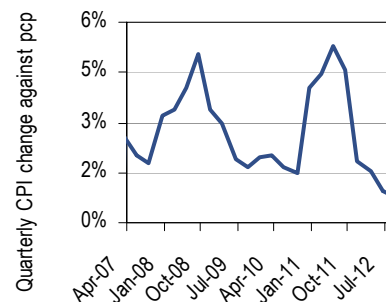
In Figure 48 to Figure 51 we show New Zealand's retail sales growth, CPI growth, unemployment rate and electronics cards transaction growth.

Figure 48. Retail sales growth



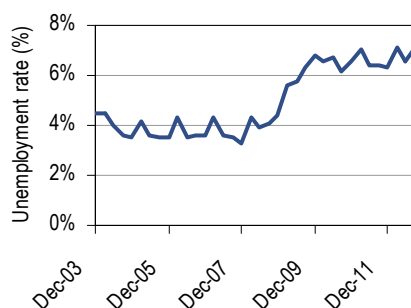
Source: Statistics New Zealand, Citi Research

Figure 49. CPI growth



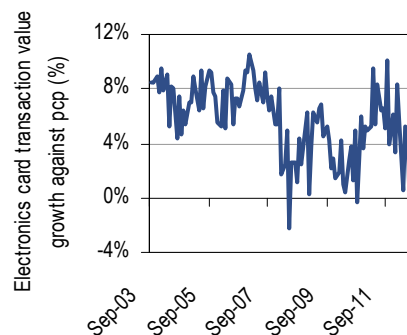
Source: Statistics New Zealand, Citi Research

Figure 50. Unemployment rate



Source: Statistics New Zealand, Citi Research

Figure 51. Electronic card transaction value growth

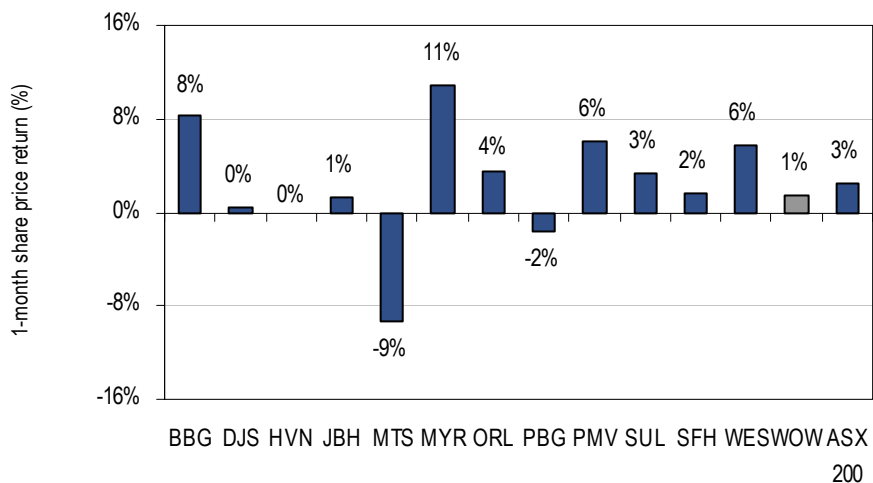


Source: Statistics New Zealand, Citi Research

Share price performance

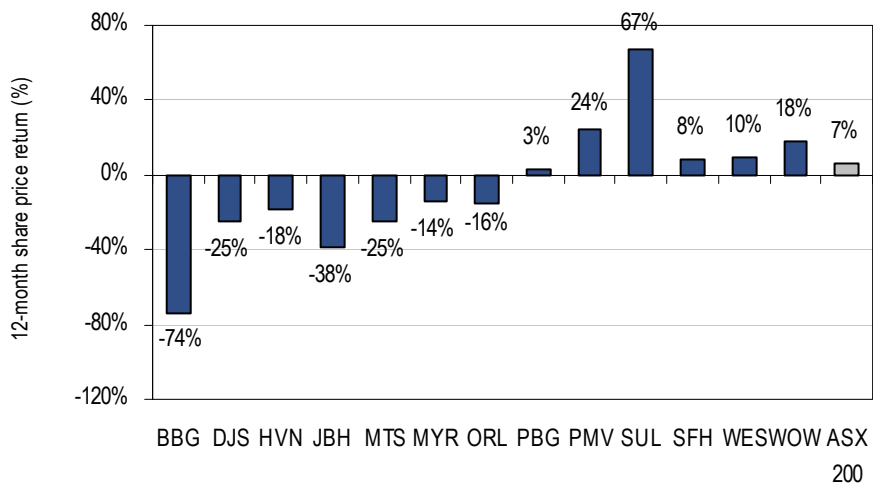
In Figure 52 and Figure 53 we show the 1-month and 12-month share price performance of listed Australian retailers and the ASX 200 Index.

Figure 52. 1-month share price return for Australian retailers



Note: Market data as of 14th December 2012; Source: Citi Research

Figure 53. 12-month share price return for Australian retailers

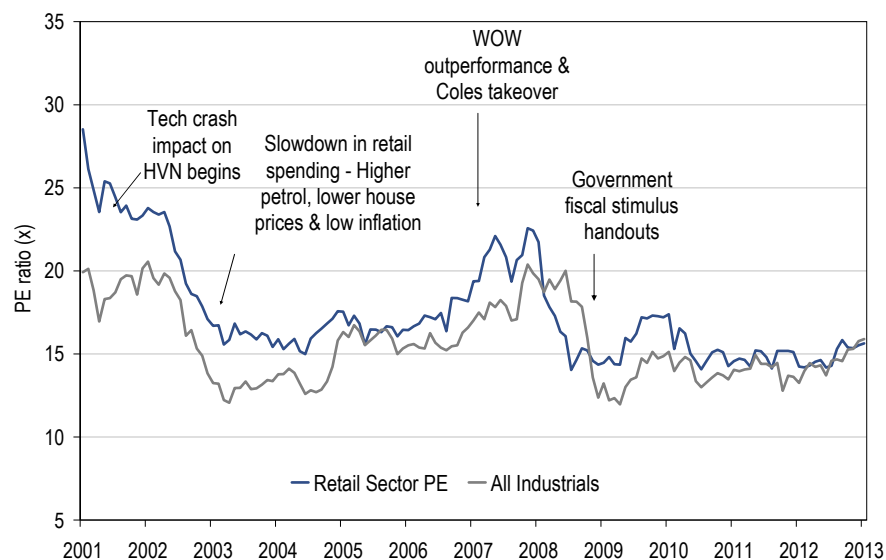


Note: Market data as of 14th December 2012; Source: Citi Research

Valuation and financial performance

Figure 54 shows that the retail sector PE is currently trading at only a 1% premium to its five year average.

Figure 54. Retail sector PE ratio



Note: Market data as of 11th December 2012; Source: Citi Research

Retail Sector Valuation

Figure 55. Retail sector valuation metrics

Company	Rating	Target price	Share price	EV/EBIT FY13e	EV/EBIT FY14e	P/E FY13e	P/E FY14e	Div yield FY13e	Div yield FY14e	FCF yield FY13e	FCF yield FY14e
Supermarkets											
Woolworths Ltd (WOW.AX)	2	28.84	29.54	11.0	10.4	15.3	14.8	4.6%	4.8%	2.8%	5.2%
Wesfarmers Ltd (WES.AX)	3	31.10	36.28	13.5	12.6	18.2	16.7	4.8%	5.4%	2.5%	5.6%
Metcash Ltd (MTS.AX)	1	4.15	3.21	8.3	7.8	9.9	9.6	8.4%	8.5%	5.7%	7.0%
Global comparable				7.8	8.0	11.4	11.2	4.4%	4.1%		
Department Stores											
David Jones Ltd (DJS.AX)	2	2.50	2.47	8.8	8.7	12.5	12.6	7.1%	7.1%	5.8%	7.1%
Myer Holdings Ltd (MYR.AX)	2	2.15	2.20	7.1	7.4	9.2	10.0	8.6%	7.8%	12.1%	11.2%
Global comparable				10.4	9.2	12.2	11.4	2.3%	2.8%		
Electrical Retailers											
Harvey Norman Holdings Ltd (HVN.AX)	3	1.65	1.82	8.5	8.6	11.9	10.6	4.4%	5.0%	6.5%	5.5%
JB Hi-Fi Ltd (JBH.AX)	3	9.30	10.12	6.9	7.4	9.7	10.3	6.6%	6.8%	6.1%	3.5%
Global comparable				6.3	5.3	12.2	10.4	0.0%	0.0%		
Surf/Street wear											
Billabong International Ltd (BBG.AX)	1H	1.20	0.91	8.7	5.8	10.4	7.8	2.2%	6.6%	13.9%	9.2%
Global comparable				11.0	9.3	15.5	13.5	1.8%	1.9%		
Wholesaler											
Pacific Brands Ltd (PBG.AX)	1H	0.75	0.59	5.4	5.1	6.8	6.8	8.5%	8.5%	15.4%	12.5%
Global comparable				10.5	8.4	16.6	12.8	1.4%	1.7%		
Clothing retailing											
Premier Investments Ltd (PMV.AX)	2	5.80	6.60	8.0	8.5	15.3	16.3	5.5%	5.2%	6.4%	4.9%
Specialty Fashion Group Ltd (SFH.AX)	1H	0.75	0.62	9.5	6.8	13.8	10.4	0.0%	3.2%	7.9%	3.0%
Global comparable				9.9	9.6	17.3	14.8	1.6%	2.7%		
Luxury Goods											
OrotonGroup Ltd (ORL.AX)	3	5.55	6.75	7.3	9.4	10.6	13.5	7.4%	5.9%	15.2%	6.9%
Global comparable				12.5	11.2	17.4	15.5	2.3%	2.6%		
Auto-parts retail											
Super Retail Group Ltd (SUL.AX)	2	7.80	9.14	11.0	10.0	15.3	14.1	3.9%	4.2%	4.6%	4.8%
Global comparable				10.2	9.7	13.5	13.0	0.2%	0.2%		

Note: Market data as of 14th December 2012; Source: Citi Research

Retail Sector Financial Forecasts

Figure 56. Citi retail sector forecasts

	Woolworths	Wesfarmers	Metcash	David Jones	Myer	Harvey Norman	JB Hi-Fi	Billabong	Pacific Brands	Premier Investments	Specialty Fashion Group	Oroton Group	Super Retail Group
	WOW	WES	MTS	DJS	MYR	HVN	JBH	BBG	PBG	PMV	SFH	ORL	SUL
Sales (\$m)													
FY12e	56,700	57,685	12,255	1,868	3,119	5,784	3,128	1,553	1,323	837	571	185	1,654
FY13e	59,479	59,828	13,038	1,896	3,180	5,528	3,217	1,395	1,296	856	590	190	1,952
FY14e	61,096	62,685	13,774	1,953	3,215	5,619	3,296	1,387	1,307	878	608	109	2,146
Sales growth (%)													
FY12e	4.7%	5.8%	-0.9%	-4.8%	-1.3%	-6.3%	5.7%	-7.8%	-18.1%	-4.4%	0.4%	12.3%	51.4%
FY13e	4.9%	3.7%	6.4%	1.5%	2.0%	-4.4%	2.9%	-10.2%	-2.0%	2.3%	3.3%	2.9%	18.0%
FY14e	2.7%	4.8%	5.6%	3.0%	1.1%	1.6%	2.4%	-0.6%	0.9%	2.5%	3.0%	-42.5%	10.0%
EBIT margin (%)													
FY12e	6.0%	6.0%	3.6%	8.3%	7.4%	17.9%	5.2%	4.7%	9.8%	10.3%	0.2%	20.5%	9.4%
FY13e	6.2%	6.0%	3.5%	8.7%	7.4%	21.1%	5.1%	4.0%	10.3%	10.2%	2.2%	19.9%	10.0%
FY14e	6.3%	6.2%	3.4%	8.5%	6.8%	18.8%	4.7%	5.4%	10.2%	9.2%	2.9%	24.3%	9.9%
Core EPS (cents)													
FY12e	179.2	183.8	34.0	19.4	23.7	15.8	105.9	10.3	8.1	43.5	-0.4	60.9	53.1
FY13e	193.2	199.7	32.4	19.7	24.0	15.3	104.1	8.8	8.6	43.0	4.5	64.1	59.7
FY14e	199.7	217.2	33.3	19.7	21.8	17.2	98.7	11.6	8.6	40.3	6.0	48.8	64.7
EPS growth (%)													
FY12e	3.2%	10.5%	2.0%	-40.3%	-14.7%	-29.4%	-14.6%	-72.5%	-27.5%	32.0%	-105.9%	0.5%	32.5%
FY13e	7.8%	8.7%	-4.6%	2.0%	1.2%	-3.4%	-1.6%	-14.7%	6.2%	-1.2%	-1118.2%	5.3%	12.4%
FY14e	3.4%	8.8%	2.8%	-0.5%	-8.8%	12.3%	-5.2%	32.2%	1.0%	-6.4%	32.5%	-23.8%	8.4%
DPS (cents)													
FY12e	126.0	165.0	28.0	17.5	19.0	9.0	65.0	2.4	4.5	36.0	0.0	50.0	32.0
FY13e	137.0	175.0	27.0	17.5	19.0	8.0	67.0	2.0	5.0	36.0	0.0	50.0	36.0
FY14e	143.0	195.0	27.0	17.5	17.0	9.0	69.0	6.0	5.0	34.0	2.0	39.0	38.5
ROE (%)													
FY12e	23.0%	8.3%	6.8%	13.0%	16.2%	7.8%	62.1%	5.4%	-48.2%	5.6%	-5.4%	75.5%	16.8%
FY13e	27.8%	9.0%	15.8%	13.5%	16.0%	7.7%	50.8%	3.9%	11.1%	5.4%	14.8%	66.9%	16.6%
FY14e	26.0%	9.7%	17.5%	13.2%	14.1%	6.6%	41.4%	5.0%	10.7%	5.0%	17.2%	45.3%	16.9%
Working cap to sales (%)													
FY12e	-1.5%	3.4%	3.6%	1.7%	0.2%	11.0%	2.7%	14.0%	20.1%	3.8%	-2.0%	15.8%	15.0%
FY13e	-1.3%	3.2%	3.2%	2.2%	-0.3%	11.2%	3.4%	14.1%	19.8%	3.3%	-2.2%	8.2%	12.6%
FY14e	-1.7%	3.0%	3.6%	2.0%	-0.4%	11.3%	4.7%	13.9%	20.1%	3.0%	-1.4%	18.0%	11.8%
Capex to sales (%)													
FY12e	3.8%	4.6%	0.6%	3.7%	1.6%	3.4%	1.5%	4.6%	1.7%	1.6%	2.8%	2.7%	3.7%
FY13e	3.8%	4.0%	0.6%	4.2%	2.8%	2.4%	1.6%	2.8%	1.6%	2.9%	3.5%	2.3%	4.3%
FY14e	3.1%	2.0%	0.8%	3.5%	2.5%	2.3%	1.5%	4.0%	1.7%	4.2%	3.9%	4.0%	4.1%
EBITDA interest cover (x)													
FY12e	15.1	12.3	7.3	19.5	10.5	8.6	14.8	4.3	5.5	nm	12.1	33.3	9.2
FY13e	17.2	13.8	8.5	16.2	10.4	9.4	14.4	7.8	6.5	nm	26.5	nm	9.4
FY14e	19.2	15.4	9.3	13.6	9.7	8.8	13.7	8.0	7.2	nm	38.0	nm	9.8

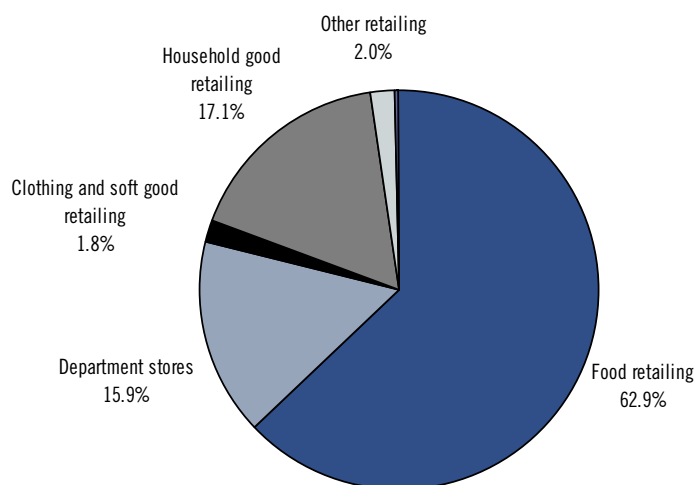
Note: Market data as of 14th December 2012; Source: Citi Research

Appendix 1 Explanation of data

Retail sales indicator

The Citi Retail Sales Indicator comprises of a basket of listed retail sector companies with market capitalisations above \$100 million. We calculate our indicator by weighting each retail category within the Australian Bureau of Statistics (ABS) Retail Trade series, by the total listed company sales mix. Figure 31 shows the sales base of the listed company's, with an obvious bias towards Food retailing, given Woolworths and Wesfarmers' inclusion.

Figure 57. Listed company sales base assumption



Source: Citi Research

Retail sales and prices

Industry retail sales performance is compared to the previous corresponding period, by category and is presented on a rolling quarterly basis. The data supplied by the ABS. We assess real growth and the implied inflation by category using chain volume data supplied by the ABS.

Weather

We use a weighted average of the yearly difference in monthly maximum temperature readings from each major Australian capital city. The maximum temperature reading by capital city is supplied by the Bureau of Meteorology.

Petrol

We use the average unleaded petrol price for each capital city in Australia to derive a weighted national petrol price. Our weights are population based.

Valuation and financial forecasts

Our sector PE chart is derived from the one year-forward PE's. We weight each company's by the respective market capitalisation to compute our sector PE.

The remainder of the financial forecasts within the 'Valuation' section are Citi's forecasts.

Appendix 2 Previous Issues

Issue 45 (9 February 2012)

Consumers Spending Elsewhere

Companies mentioned: FLT, SUL, MTS

Issue 45: Consumers Spending Elsewhere

Retailers are complaining because shoppers are not spending money in their stores. The reality is that retail spending is much weaker than broader consumer spending. In Issue 45 of What's In Store?, we explore the substitution between retail and other spending categories. In discretionary retailing, travel has taken almost half of the growth from retail. In food retailing, restaurants and café's are not taking away share from supermarkets but are rather complementing its growth. These trends are partly lifestyle driven and partly price driven. The implication is weak retail sales growth again in 2012 as consumers switch more of their spending to travel, recreation and personal care. We prefer Metcash for its defensive attributes and both Flight Centre and Super Retail Group for their ability to tap into these consumer trends.

url: [Consumers Spending Elsewhere](#)

Issue 46 (5 March 2012)

Private Equity Eyes on Retail

Companies mentioned: BBG, DJS, HVN, JBH, MTS, MYR, ORL, PBG, PMV, SFH, SUL, WHS, WES, WOW

Issue 46: Private Equity Eyes on Retail

Private equity is circling the Australian retail sector. In Issue 46 of What's In Store?, we analyse the private equity interest in listed retailers by using the typical private equity framework. There are three distinct groups of companies of interest – margin recovery, asset plays and cash flow returns. There are four companies that present the highest interest on our scorecard and the potential internal rate of return (IRR) – Billabong, Pacific Brands, Harvey Norman and Specialty Fashion Group. While Billabong and Pacific Brands are well known, Harvey Norman and Specialty Fashion have large blocking shareholders that present the most significant hurdle for potential bidders.

url: [Private Equity Eyes on Retail](#)

Issue 47 (10 April 2012)

Close to the Edge

Companies mentioned: BBG, DJS, HVN, JBH, MTS, MYR, ORL, PBG, PMV, SFH, SUL, WHS, WES, WOW

Issue 47: Close to the Edge

The retail sector earnings result season provides a great snapshot of the painful adjustments retailers need to make. Most retailers reported weak sales and rising operating costs during 1H12. The only saviour was the higher Australian dollar by supporting gross profit margins. In Issue 47 of What's In Store?, we analyse the recent financial results and implications for future profitability. The sales headwinds will persist, primarily through deflation and living cost pressures. Currency gains may carry through for another six months, but the need to become price competitive will be a bigger headwind over the medium term. Moreover, over three quarters of the 31 retailers we analyse reported an increase in inventory days, posing risks for the next year's profit margins. Given these challenges, our stock preferences are Metcash and Woolworths, where the online retailing threat is minimal and industry structure highly attractive. We have Buy ratings on both companies.

url: [1H12 Retail Results – Close to the Edge;](#)

Issue 48 (9 May 2012)

Focusing on Shrinkage To Grow Profit

Companies mentioned: BBG, DJS, HVN, JBH, MYR, ORL, PMV, SFH, SUL, WES, WOW

Issue 48: Focusing on Shrinkage To Grow Profit

Shrinkage is the billions of dollars of inventory that goes "missing" in retail stores. There are many reasons for it and the impact on profits can be significant. In Issue 48 of What's In Store?, we assess the sources of shrinkage and look at the retailers like Coles, Myer and JB Hi-Fi which release details of shrinkage. Finally, we estimate the opportunity for retailers to lift profitability by reducing their shrinkage rate. Myer has halved its shrinkage in three years, while Coles has captured more

than 100bp in margin gains. We see soft goods retailers as the best beneficiaries going forward, such as Premier Investments, David Jones and Target.

url: [Focusing on Shrinkage to Grow Profit](#)

Issue 49 (6 June 2012)

The Wardrobe Is Full – The Replacement Cycle in Retailing

Companies mentioned: BBG, DJS, HVN, JBH, MYR, ORL, PMV, SFH, SUL, WES, WOW

Issue 49: The Wardrobe Is Full – The Replacement Cycle in Retailing

Retailing in Australia and overseas has relied on consumers more frequently updating their wardrobes and upgrading their electronics and furniture over the past ten years. In this issue of What's In Store?, we look at the shopper's replacement cycle as an influence on retail spending. In non-food categories, like clothing and electronics, more than three-quarters of the volume growth has been driven by a shorter replacement cycle. Price is the biggest influence. Bigger homes and innovation have also been large drivers. We expect a lack of replacement cycle compression to lead to softer retail sales trends over the next decade. We estimate 3%-5% growth in non-food retailing versus 5% in the past ten years. Food retailing is much better placed with stronger pricing power. We have Buy ratings on Metcash and Woolworths.

url: [The Wardrobe Is Full – The Replacement Cycle in Retailing](#)

Issue 50 (13 July 2012)

Shopping for imports

Companies mentioned: BBG, PBG, DJS, HVN, JBH, MYR, ORL, PMV, SFH, SUL, WES, WOW

Issue 50: Shopping for imports

Australia exports large quantities of raw materials but imports the majority of its finished goods. In Issue 50 of What's in Store?, we look at the retail sector's reliance on imports and likely impact on sourcing costs over the next five years. Relative wage costs and productivity make China the natural destination for sourcing in future, despite cost pressures. We expect a notable increase in imports for food and beverages and furniture, which may create deflationary pressures in those categories. This would pose risks for Harvey Norman, Wesfarmers and Woolworths.

url: [Shopping for Imports](#)

Issue 51 (20 August 2012)

Australian Retail Floor Space – It's in the Zone

Companies mentioned: DJS, HVN, JBH, MYR, ORL, PMV, SFH, SUL, WES, WOW

Issue 51: Australian Retail Floor Space – It's in the Zone

How much retail floor space is there in Australia? We set out to answer this simple question, but found reliable data was missing. In What's In Store? Issue 51, we provide a detailed estimate of floor space, the growth over the last 20 years and how it compares to other countries. The question is crucial given property zoning laws may change in Australia that would allow more supermarkets to open and relax some of the barriers to entry. The greatest risk is for Metcash, Wesfarmers and Woolworths in our view given food retailing currently has the tightest restrictions and highest returns. Margins could easily fall 100bp, which is worth more than 10% to valuation to these companies.

url: [Australian Retail Floor Space – It's in the Zone](#)

Issue 52 (18 September 2012)

A Creditor's View of Retailers

Companies mentioned: ORL, PMV, DJS, BBG, HVN, JBH, MTS, MYR, PBG, SFH, SUL, WES, WOW

Issue 52: A Creditor's View of Retailers

Equity markets may take a sceptical view of retail as evidenced by low PE ratios, but how do banks and credit markets view retailers? In Issue 52 of What's In Store?, we look at Australian retail debt levels, the key credit metrics adjusted for leases and the potential future cost of debt. The companies most vulnerable to rising interest rates are Billabong and Myer.

url: [A Creditor's View of Retailers](#)

Issue 53 (18 October 2012)

The Good, The Bad And The Ugly

Companies mentioned: BBG, DJS, HVN, JBH, MTS, MYR, ORL, PBG, PMV, SFH, SUL, WHS, WES, WOW

Issue 53: The Good, The Bad And The Ugly

Retail share prices have collapsed over the past year, following concern about the retail sales environment. Yet many retailers managed to hold profit margins for FY12. In Issue 53 of What's In Store?, we analyse the factors behind sluggish sales, the source of profit margin protection and challenges for FY13e. Input cost savings through currency and raw materials may help again in FY13e, but wage pressures are high. Nevertheless there are success stories in retail. Good retailers are winning share, not relying on economic recovery. Our preferred investment recommendations have valuation support, Pacific Brands, Specialty Fashion Group and Metcash.

url: [FY12 Retail Results – The Good, The Bad And The Ugly](#)

Issue 53 (18 October 2012)

Is the Department Store Dead?

Companies mentioned: DJS, MYR

Issue 53: Is the Department Store Dead?

Is the department store dead? In Issue 54 of What's in Store?, we analyse vital statistics about David Jones and Myer, and compare these with offshore retailers like Nordstrom, Saks, John Lewis and Macy's. We look at the features that drive success for Nordstrom and John Lewis. The answer lies in fewer stores, a higher level of staffing and intense focus on sales dollars, not percentage margins. Nordstrom and Saks also thrive with a strong clearance outlet store network. There is potential for David Jones and Myer to lift sales productivity, which would provide significant earnings upside. For David Jones the earnings upside is 47% if it matches Nordstrom, while for Myer the upside would be 96% if it matches John Lewis.

url: [Is the Department Store Dead?](#)

Appendix A-1

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