

Retail and Restaurants

Easing inflation and promotions to boost consumer spending

This report does not constitute a rating action.

What's changed?

Households are regaining their purchasing power. The improving economic conditions, strong wages, and lower energy bills should support domestic demand for goods and services. Therefore, retailers should benefit as consumer demand picks up momentum from the second half of 2024.

Working capital pressures have eased. The greater focus on managing working capital has normalized inventory levels across retailers, although inventories are still elevated.

Retailers with scale and more nimble supply chains have improved their market share. Over the last few quarters, larger and better capitalized retailers (especially in the grocery and apparel segments) have increased their market leadership over smaller competitors. Larger retailers have benefitted significantly from greater scale and more efficient supply chains, distribution, and fulfillment capabilities.

What to look out for?

Higher labor costs will continue to be a drag on margins. Wages typically account for the largest operating cost for retailers. The cost of labor exceeds inflation and this will depress the retailers' and restaurant operators' margins.

Higher levels of promotions to gain market share. Retailers will increase promotions to improve volumes because previous price increases have led to high unit prices. With already low margins, retailers will look to their suppliers of branded consumer goods to contribute a significant portion of those promotions.

The private label opportunity. Because of declining input costs, there are opportunities for retailers with established private labels to increase and cement their market share by providing greater value to their consumers.

What are the key risks around the baseline?

Elevated spend on experiences will hurt sales of discretionary goods. Consumers will continue to prioritize travel and leisure activities while curtailing their spending on discretionary products relating to the home, apparel, and higher value durables.

Weaker free cash flow generation. Retailers, particularly those with leveraged capital structures, will be tested on their ability to protect their free cash generation. Following moderation in capital expenditure (capex) budgets over the last few years, many retailers face higher capex requirements to upgrade their technological platforms, distribution networks, and stores.

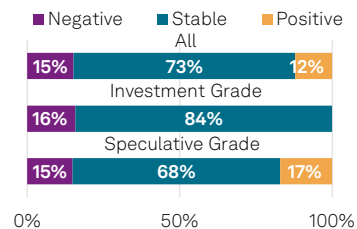
Geopolitical risks. There have been lower-than-expected spillovers, but escalations could affect supply chain bottlenecks and commodity price volatility, hurting consumer sentiment.

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Rating Trends

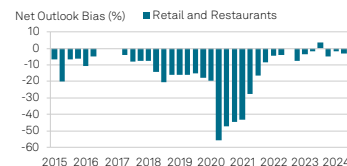
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	19	47	66
Downgrades	0	2	2
Upgrades	0	1	1

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	2.0	2.6
EBITDA growth (Y/Y%)	1.4	5.1
EBITDA margin (%)	8.3	13.6
Capex growth (Y/Y%)	-0.7	9.1
Debt/EBITDA (x)	1.8	4.4
FFO/Debt (%)	44.6	15.2
FOCF/Debt (%)	20.4	9.7

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

- [SLIDES: Global Retail And Restaurants Outlook 2024: Consumers Will Remain Cautious Even As Inflation Eases](#), Feb. 29, 2024
- [Peer Comparison: European Food Retailers Resilient Amid Operating Shocks](#), Feb. 12, 2024
- [European Retailers' Margins Are Unlikely To Regain Their Pre-Pandemic Strength](#), Nov. 7, 2023