



RETAIL



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Retail has continued to see major M&A activity along with some substantial group sales, which is likely to create plenty of opportunity across the grocery, convenience, and petrol filling station markets.

The proposed merger of Sainsbury's and Asda was arguably the biggest story of 2018 and the CMA (Competition & Markets Authority) is assessing whether it will give the combined retail group an unfair competitive advantage and impact consumers' choice. A decision on this will be made in 2019 and if it goes ahead could provide significant new acquisition opportunities for a range of buyers. Any divestment of stores the Sainsbury's-Asda group may have to undertake in order to proceed means that sites across the UK could become available, perhaps with smaller properties, offering good going concern opportunities for symbol groups and independents to expand. Any large supermarkets could be prime targets for opportunistic real estate investors or developers eyeing often key strategic locations.

CONVENIENCE

The convenience sector, including petrol stations, continues to account for over a fifth of the overall grocery market and is only set to strengthen, showing an average of 4% compound annual growth. It remains a thriving market featuring major group players such as Tesco, Sainsbury's, The Co-Op, McColl's and symbol groups like Booker, Spar, Bestway and Nisa. Site ownership continues to be dominated by independent operators who make up 72% of the convenience sector, usually trading under and supplied by a symbol brand. This

fragmented market allows and encourages a steady stream of activity by both corporates and independents to be maintained.

£814m

spent on reinvestment in convenience retail in 2018

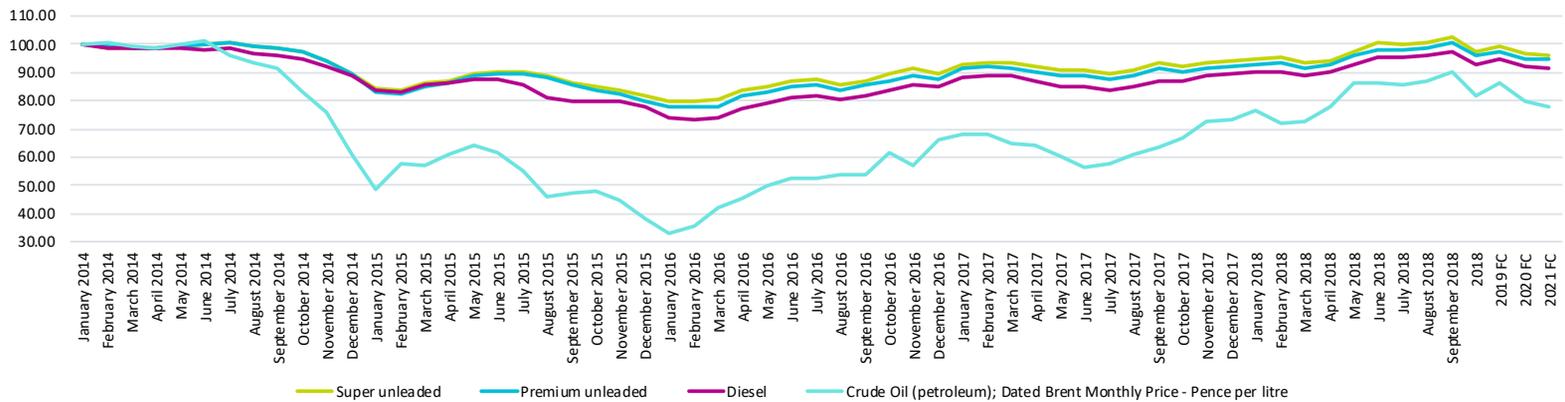
Reinvestment is a key theme amongst business owners, with £814 million (ACS) devoted to this in the last year, which is why freeholds are favoured by independent buyers, as they can improve sites to increase revenue, reduce costs and enhance profitability, ultimately boosting value. Whilst there is some expansion in medium sized groups looking to consolidate, generally single site transactions continue to dominate the market.

The collapse of Conviviality in 2018 led to wholesaler Bestway acquiring its convenience brands Bargain Booze and Wine Rack for £7.25 million. We expect that along with this consolidated group, once stabilised, there will be a number of acquisitive parties in the market together with retailers "churning" their portfolios.

FILLING STATIONS

After years of divestment, oil companies look set to shake up the petrol filling station

MONTHLY VARIANCE IN PETROL AND CRUDE OIL PRICES (REBASED JANUARY 2014 = 100)



Sources: ONS, Statista, Christie & Co Analysis

market in 2019. We could see a rash of activity from returning buyers such as Phillips 66 (Jet) and Certas Gulf. Prax Petroleum (Harvest) set the tone for oil company investment in 2018 by acquiring HKS. All are likely to increase purchasing activity in 2019 in an attempt to protect market share in an aggressive dealer dominated market.

Oil prices and pump prices reached a low point in January 2016, following a period of industry oversupply and pump price discounting by the oil companies. Oil prices have subsequently increased steadily until September 2018 but, with independent operators looking to improve turnover, these increases have not been fully matched by pump prices. However, based on crude oil price forecasts for the next few years, we anticipate that the gap between pump prices and oil prices will again widen, so that fuel retailers will experience improved margins in the short term.

Christie & Co brought Cornwall Garage Group to the market in the autumn of 2018 and this has been a good market bellwether. The open marketing of Cornwall Garage Group's portfolio of 17 sites across the UK invited offers for the individual businesses, in subgroups or as a whole portfolio and generated nine group offers, including three in excess of the aggregate guide price. Interested buyers included both domestic operators of all sizes and overseas investors seeking a foothold in the UK, with the final sales to conclude in early 2019.

The Cornwall Garage Group's introduction to the market illustrated how Christie & Co's established open marketing

process created competitive tension to drive significant additional value for stakeholders in an already competitive and high value market.

ALTERNATIVE FUELS VEHICLES (AFVS)

Developments in AFVs are continually evolving as the government pushes its 'Road to Zero' initiative to cut emissions. Petrol retailers and stakeholders in the sector are acutely aware of a future move away from petrol and diesel power. However, their interest is in the underlying real estate backed roadside retail offer, underpinned by consumer behaviour. Convenience retail and food service will increasingly form an important pillar of this business so investment in petrol stations is likely to remain compelling for some time to come.

Recent reports of modest increases in electric vehicles (EVs) sales and a consumer preference for hybrid vehicles (electric and petrol) show a lack of consumer confidence in pure electric. The motor industry will need to collaborate to overcome consumer 'range anxiety' if it wants to see mass adoption of EVs.

Retailers are currently reluctant to invest heavily in electric vehicle charging ports. While some are slowly testing new technologies and investing in low voltage single charging ports, many are still unconvinced of the financial return on rapid charging which usually requires a hefty investment in grid connection. There is also a reluctance to forgo valuable parking spaces which can generate footfall into the shop

where, coupled with food sales, margins are more attractive. Inevitably, the future will see a greater confidence and implementation of electric vehicle charging but perhaps by then hybrids or even hydrogen fuel cell technology will have overtaken pure electric.

Transient locations where petrol filling stations are often located will be more suited as 'top up' locations for electric vehicles. It is our view that whether to top up vehicles with fuel sources or meet consumers' convenience needs on the go, what we currently know and love as 'petrol filling stations' will remain relevant and valuable as wider 'refuelling facilities' for the foreseeable future.

GARDEN CENTRES

In 2018, Christie & Co was instructed to market 145 Wyevale Garden Centres, the biggest sale of garden centres assets in the UK. Centres were made available individually, in sub groups or as an entire portfolio and the campaign attracted existing operators, private equity, real estate investors and developers. Strong appetite for expansion from those in the sector and from new external investors was evident following the launch in May.

Similarly, farm shops are an area of retail with a current low profile but this fairly new sector

looks to grow into next year. Consumer demand for provenance in product and locally sourced produce has become more prevalent and this will fuel attractiveness for investors and boost existing operators.

BREXIT

For grocers, the biggest possible impact from Brexit is on the supply chain, with costs of sourcing products and labour potentially being pushed upwards if undesirable import and export tariffs are introduced. Costs of fuel could also rise, posing a challenge for the filling station sector but, similar to the grocery market, these costs can typically be offset by increasing prices fractionally for the consumer.

However, unlike many other business sectors Christie & Co deals with, Brexit is unlikely to have a detrimental effect on the retail workforce, particularly in convenience and for independent operators. These businesses are often family operated or run by a small team, meaning there is little demand for additional staff to operate convenience store sites.

Supermarkets may face a slight deficit of their EU workforce pool for frontline operational staff but with good levels of pay and working conditions, generally there is no shortage of applicants for these positions.

MARKET PREDICTIONS

As the level of sales required to sustain a corporate convenience store increases, we are likely to see a significant increase in corporate divestment

Oil companies could acquire more going concern petrol station businesses to retain market share

Already narrow margins in high street retailing and shopping centres will be squeezed leading to the potential increase in financial distress



CASE STUDY Wyevale Garden Centres, UK

Terra Firma, the private equity fund, appointed Christie & Co to advise on the process of selling 145 Wyevale Garden Centres. The opportunity to run one, a small group or a portfolio

of garden centres ignited interest within the garden centre sector and beyond. Christie & Co reached over 60,000 potential buyers and through a two-phase offer process supported management in the sale of 40 garden centres by the end of 2018. Subgroup deals were concluded to Blue Diamond (9), Dobbies (6), In Excess (4) and the rest to a mix of garden centre operators and speculative investors. Woodcote Green was quoted in the trade press as being "the UK's most expensive garden centre



CASE STUDY Cornwall Garage Group

Christie & Co was appointed to market Cornwall Garage Group, a portfolio of 17 petrol filling stations, located across the Midlands, Home Counties and South West of England. The

14 freeholds and three leaseholds were made available individually, in subgroups, or as a portfolio and generated enormous interest across the forecourt market. Our carefully orchestrated marketing reached over 21,000 buyers and we received offers on every property and nine offers for the whole portfolio.



CASE STUDY Bathway Service Station, UK

Flying Visit Limited appointed Christie & Co to confidentially market Bathway Service Station on the A36 in Frome, Somerset. The site was trading as a Texaco with an annual fuel throughput of 11 million litres and shop sales of £40,000 per week. After generating multiple bids, the site was sold to BP, who are planning to undertake a demolish and re-build the retail shop as an M&S Food.

72%
of the
convenience
sector is
owned by
independents

