



LARGE-SCALE DISTRIBUTION FOR THE FOOD INDUSTRY: IN ITALY INFLATION DROVE 6.7% GROWTH IN SALES FOR 2022, BUT ONLY HALF THE FIRMS STILL HAVE POSITIVE MARGINS

*Discount stores and private labels are the antidote to higher prices for consumers
Sector driven by organized mass retail distribution
Eurospin ranks first by profits and is one of the top three international players in terms of ROI
Positive performance by mass retail distribution in Southern Italy
Governance: focus on generational transitions and gender gap
Sustainability: room for improvement in reporting, decent performance in terms of
environmental commitment*

Milan, 16 March 2023

The **Mediobanca Research Area** has presented a new version of its survey on **large-scale distribution, Italian and international, for the food industry in particular**. The survey combines the earnings and financial data of 130 Italian firms, plus 31 of the leading international operators, for the 2017-21 period. For Italy alone, coverage is estimated at 97.6% of the market. The report includes a focus on **the large-scale distribution industry's governance** and **sustainability** in Italy. The full survey may be downloaded from www.areastudimediobanca.com.

2022 a year of certainties and uncertainties; expectations for 2023

The preliminary data for the large listed international retailers points to an increase of 7.8% in total sales for **2022**, but a reduction of 6.2% in industrial margins. For the **Italian mass retailers**, 2022 sales are expected to grow by 6.7%, with the Ebit margin decreasing from 2.4% in 2021 to 1.4%. Inflation is threatening the resilience of demand, which dropped by 6% in January 2023, eroding consumers' **purchasing power**. However, sales are expected to increase again in 2023, by 2.8%. Consumers looking for opportunities to save has driven sales of private label in particular, which in 2022 totalled €12.8bn (up 9.4% on 2021), and in the discount channel, which now accounts for more than 22% of the market (17.4% in 2017). Promotional pressure has eased, from 28.3% in 2019 to 22.4% in September 2022, representing the mass retail industry's first weapon of defence against the uncertainty relating to costs and sourcing issues. Growth in sales by the online channel continues (up 10.5% on 2021), but the channel's share of the aggregate remains flat at around 3% of total sales. The **Italian market's concentration** is stable: the market share held by the top five retailers is 57.1%, meaning the market is more concentrated than in Spain (49.8%), but still far off the levels seen in the Netherlands (80.1%) France (78.4%), the United Kingdom (75.4%), and Germany (75%). **Large-scale distribution has been very dynamic**: its share of the sector has increased from 33.3% in 2017 to 37.9% in 2021. In the 2018-21 period, 14 independent operators were included in the mass retailers' scope for the first time, while another five have been moved into this segment. VÉGÉ is the operator that has attracted the highest number of new associates (nine), while D.IT has added three new companies, with two new additions for Selex and Crai, and one each for C3, Agorà and Despar.

2021: pandemic and inflation

Total sales by the Italian operators were up 3.5% on 2020, and up 10.8% on 2017 (2.6% higher than the annual average for this period). **The system-wide ROI in 2021 reached 5.5%**, flat versus the 5.6% posted in 2020, but higher than the average for the 2017-19 period (4.7%). In 2021 all

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segments posted reductions in ROI: the discount stores from 16.8% in 2020 to 14.2% in 2021, the organized distribution segment from 8.7% to 7.6%, and large-scale distribution from 4.9% to 3.6%. However, the ROI generated by Coop improved, from 0.2% in 2020 to 1.6% in 2021, with a profit delivered for the first time after three years of losses. **A similar trend was recorded at the Ebit margin level**, which increased from 2% in the 2017-19 period to 2.4% in 2021, after reaching a high of 2.7% in 2020. Here the organized distribution segment reported a decrease, from 3.1% in 2020 to 2.7% in 2021, large-scale distribution from 2.2% to 1.5%, and the discount channel from 5% to 4.9%. **There was growth in tangible assets and store networks:** in 2021 capex was up 18.7% on 2017 (with an annual average growth rate of 4.4%), accounting on average for 3.4% of total sales in the 2017-21 period. The discount stores stepped up their investments with an increase of 60.6%, as did the organized distribution segment (up 31.4%), while the large-scale distributors cut their capital spending by 14.1%. **Retailers in Southern Italy delivered a standout performance in terms of sales**, with an annual average growth rate of 5.1% since 2017, while the operators based in North-East Italy were more dynamic than their counterparts in the North-West, reporting growth of 1.9% (versus 0.9%); the performance was less impressive, however, in terms of margins (Ebit margin 1.3%, vs 2.2%).

Interesting aspects in the individual operators' accounts

MD is the stand-out performer in terms of growth in total sales between 2017 and 2021, posting annual average growth of 9.7%, followed by Lidl Italia with growth of 8.4%, and Agorà (7.6%). These were followed by the discount store Eurospin (6.9%), Conad (6.7%), and Selex (5.2%). **In the last year** Agorà and Eurospin have been the best performers, each delivering growth of 7.7%, ahead of Lidl Italia (6.7%) and Finiper Canova (Iper-Unes) (6.6%). Behind the top three we find MD, which posted growth of 5.6%, and Conad (5.5%). **In terms of the return on capital invested (ROI), Eurospin ranked first with 18.2%**, followed by MD with 15.1%, and Lidl (11.3%).

Eurospin led the way in terms of cumulative profits earned between 2017 and 2021 with €1,286m, ahead of Esselunga (€1,195m), closely followed by VéGé with €1,078m, and Selex (€1,056m). Carrefour has accumulated losses of €766m, Coop of €410m, and Penny Market of €43m. **Coop Alleanza 3.0 is the leading Italian co-operative**, with total sales in 2021 of €4,301m, followed by PAC 2000 A (Conad group) with €3,921m, and Conad Nord Ovest with €2,671m, ahead of Unicoop Firenze with €2,349m. **The shareholders' loan outstanding in the co-operative system continues to decrease**, from €9.1bn in 2017 to €8bn in 2021. In the last five years the co-operatives have generated net interest income of €826m, against writedowns totalling €850m.

"Hidden champions" deliver growth and profitability

Some 25 organized distribution companies posted annual total sales in excess of €500m, ranging from the Unicom group with €2,413m, to Migross with €509m. Gruppo Arena delivered the highest return on capital invested (ROI) in 2021, with 23.4%, followed by another thirteen groups with double-digit returns. The highest increase in total sales was delivered by Abbi Holding (up 34.1%), some way ahead of Supermercati Tosano Cerea, which posted growth of 14.9%, Mega Holding (Megamark) with 12.2%, and Retail Evolution Holding (Iperal) with 11.2%. The 25 operators posted an aggregate turnover of €26.7bn, with growth of 4.1% in 2021, and an average ROI of 7.6%.



Leading international players

In 2020, the leading international retailers included in this survey posted total sales ranging from €501.3bn reported by US-based WalMart to €20.9bn posted by Portuguese group Jeronimo Martins. These operators generate 17% of their turnover via points of sale located outside their countries of origin. The retailer with the most marked international focus is Dutch group Ahold Delaize (78.3%), followed by Jeronimo Martins, which exports primarily to Poland (76.2%), Japanese retailer Seven & i (60.4%, which exports mainly to North America), and the French groups Carrefour (51.6%), Casino (47.3%) and Eo-Auchan (46.9%). **The international panel reflected an average ROI of 10% in 2021**, higher than the 9.4% recorded in 2020. In the **ranking by ROI, which includes both Italian and international retailers**, the top three positions were held by US group Target (30.1%), followed Eurospin of Italy (18.2%), and WalMart, also of the United States (17.8%). Another two Italian discount stores also reported ROI for 2021 above the international panel's average: MD with 15.1%, and Lidl Italia, which, with a ROI of 11.3%, outperformed its German parent company Lidl Stiftung (9.2%). As for **domestic sales per square metre**, UK-based J. Sainsbury ranked first with €15,500, ahead of Esselunga of Italy with €15,300, which in turn was followed by Empire of Canada (€12,000), another UK-based supermarket chain Wm Morrison (€11,900), and the two Australian companies Woolworths (€11,500) and Coles (€11,400).

ESG issues in the Italian mass retail distribution industry

In 57.6% of the non-co-operative companies in the Italian mass retail distribution industry, only one person has executive powers. Generationally speaking, the oldest Board members ("matures") account for 23.4% of the positions with executive powers, while the "Baby Boomers" are the most represented segment (39.1%), while representatives of Gen X and the Millennials hold 23.4% and 14.1% of the executive positions respectively. As for gender composition, **women occupy just 22.8% of the Board positions with executive powers**, a figure which rises to 29% for the co-operatives. Of the Italian directors, 71.2% hold positions in companies located in the same region as they were born in, and the presence of local directors is at its highest in the companies based in Southern Italy, where just 13% of the Boards feature representation for other regions and localities. **The operators in the large-scale distribution sector deal at length with sustainability issues in the relevant sections of their websites. Some 51.5% of the companies prepare CSR or sustainability reporting:** the phenomenon is more widespread among the operators in the organized distribution segment (54.2%), less so among the discount stores (40%), and sporadic among the large-scale distribution operators (14.3%). Of topics that have been measured analytically, **with regard to human resources**, the share of women in the workplace overall was 62.4%, while for management positions this falls to 23.9%. **On environmental issues**, the strong commitment by the operators to reduce their impact on the environment has delivered satisfactory results: since 2019 the companies have reduced their energy intensity by 15% and their carbon intensity by 14.4%. They have also reduced the amount of waste they generate (down 3.7%), and 68.3% of the waste produced is recycled.