



ConsumerWatch | February 2024

AT LEAST SOMEONE LOVES ME

EDISON THEMES

As one of the largest issuer-sponsored research firms, we are known for our bottom-up work on individual stocks. However, our thinking does not stop at the company level. Through our regular dialogue with management teams and investors, we consider the broad themes related to the companies we follow. Edison themes aims to identify the big issues likely to shape company strategy and portfolios in the years ahead.

ANALYSTS

Russell Pointon
Milo Bussell
Alastair George
Richard Finch

consumer@edisongroup.com

edisongroup.com

+44 (0) 20 3077 5700

The consumer sectors are looking for love following a challenging CY23 from the perspective of profit expectations (down overall) and share price performance (most underperformed).

There is much to love in the consumer sectors. Many companies are looking good value versus their own historical multiples, and economic forecasters are predicting we are past the worst with respect to economic growth, inflation and interest rates. However, the improvements are expected to be second half weighted. Let's hope they are right.

Some have been willing to bet on this already – note the high level of corporate and private equity activity that began in the UK towards the end of Q323 and has continued into Q124.

What is there not to love about the sectors? Mainly, the not-unexpected negative trends in earnings estimates and the more recent reversion to overall net downgrades.

An improvement in momentum in profit expectations would be helpful for the sectors to find additional suitors and prevent them disappearing from our screens.

MACRO OVERVIEW

Reacceleration of growth in H224?

In the conclusion of our January 2024 [Equity strategy and market outlook](#), we maintain a neutral outlook on global equities following the Q423 rally as equity valuations rose in tandem with declining bond yields. We believe that US equity markets appear to be fully priced at present and upwards revisions to earnings estimates will be required to sustain market momentum.

We believe global investors still have a solid foundation in terms of the outlook for developed market interest rates and long-term government bonds, despite the most recent increase in yields. Bond yields are, in our view, set to remain significantly lower than the peak levels seen during 2023. However, the most rapid period of yield compression appears to be over and 10-year US government bonds appear to be close to likely long-term levels. If sustained, easier financial conditions are likely to improve prospects for economic activity during 2024, raising the prospect of earnings upgrades.

Provided inflation continues to decline, we expect increased corporate activity in terms of mergers and acquisitions from depressed levels, as financing becomes cheaper and more readily available as interest rates fall later in the year.

Recovering Purchasing Managers Index (PMI) data indicate that a period of subdued economic growth is coming to an end. We believe this will not have a material impact on expectations for a loosening of monetary policy later this year, provided there is no reacceleration of inflation. Equity investors' focus is instead likely to be on the potential for a reacceleration of the global economy in the second half of 2024.

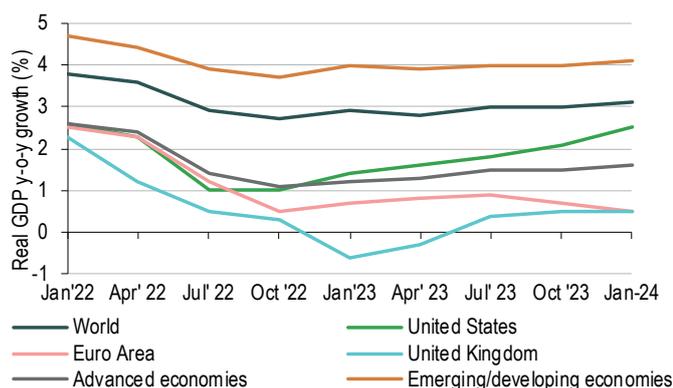
The key uncertainty for 2024 remains geopolitical risk, both in Ukraine and the Middle East, with its direct impact on the cost of energy and food. A significant escalation in either region could have a significant impact on energy prices or supply chains, and the consequent rebound in inflation would present challenges both to monetary policymakers and financial markets.

Macro forecasts

It is safe to say that overall growth in 2023 was much better than expected/feared at the start of the year. In its January 2024 update, the International Monetary Fund (IMF) modestly increased its forecast for global growth in FY24 to 3.1% (from 2.9% in October 2023), primarily due to a significant upgrade to the forecast for US growth to 2.1% (from 1.5%), while the forecast for the euro area was downgraded to 0.9% (from 1.2%) and the UK forecast was unchanged at 0.6%. This followed a slightly stronger finish to

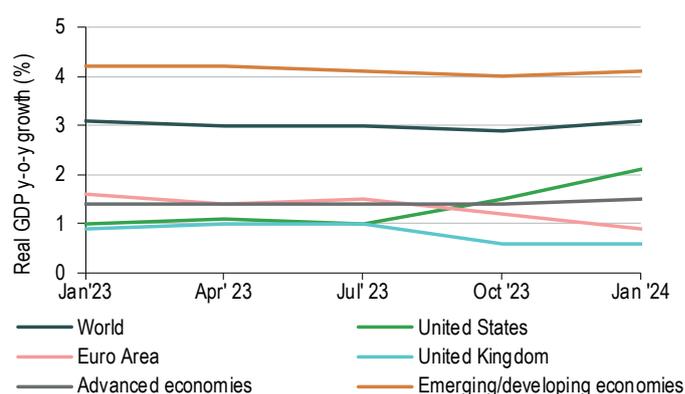
2023 than previously expected, mainly attributed to the resilience of the US. The global growth estimates of 3.1% for 2004 and 3.2% for 2005 point to subdued growth relative to the historical average from 2000–19 of 3.8%. For what it is worth now, the IMF was expecting a strong improvement in 2025 for the UK (to 1.6% growth), as expected disinflation and easing financial conditions help real incomes to recover, and the euro area (1.7%), while the US's growth was expected to slow somewhat (to 1.7%).

Exhibit 1: Real GDP growth estimates for 2023



Source: International Monetary Fund

Exhibit 2: Real GDP growth estimates for 2024



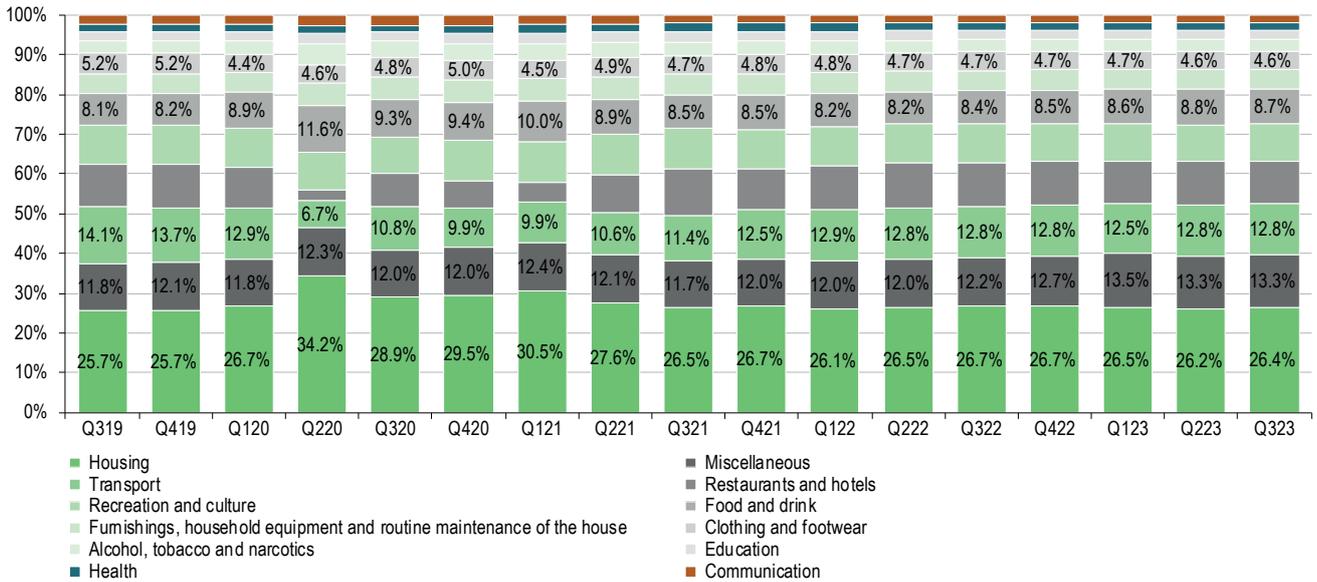
Source: International Monetary Fund

Looking closer to home, in its February 2024 Monetary Policy Report, the Bank of England (BoE) expected GDP growth to pick up through 2024–26 as the drag on growth from past increases in the interest rate reduces. This was prior to the news on 15 February 2024 that the UK had slipped into recession in H223. Within the better overall growth outlook, the BoE expected the level of household spending to be flat in H124 and to pick up from there, while the savings ratio was expected to remain elevated this year.

UK consumer spending

The COVID pandemic and recent cost of living crisis have naturally led to some dramatic swings in how households have chosen, or should we say been forced, to spend their money. While Exhibit 3 is quite a busy chart in terms of the number of categories of household final consumption shown, we draw out the main swings between the categories from Q319 through Q323. A greater proportion of spend has naturally gone towards the essentials, housing (increased from 25.7% of household consumption in Q319 to 26.4% in Q323) and food and drink (from 8.1% to 8.7%), while clothing and footwear has shrunk (from 5.2% to 4.6%). Miscellaneous (which includes everything from personal care to jewellery and financial services) increased from 11.8% to 13.3%. Here the pressure on discretionary spend is emphasised by the increase being entirely attributable to growth in financial services, while all other subcategories fell. Conversely, spend on transport has fallen by a similar proportion, from 14.1% to 12.8% of household consumption.

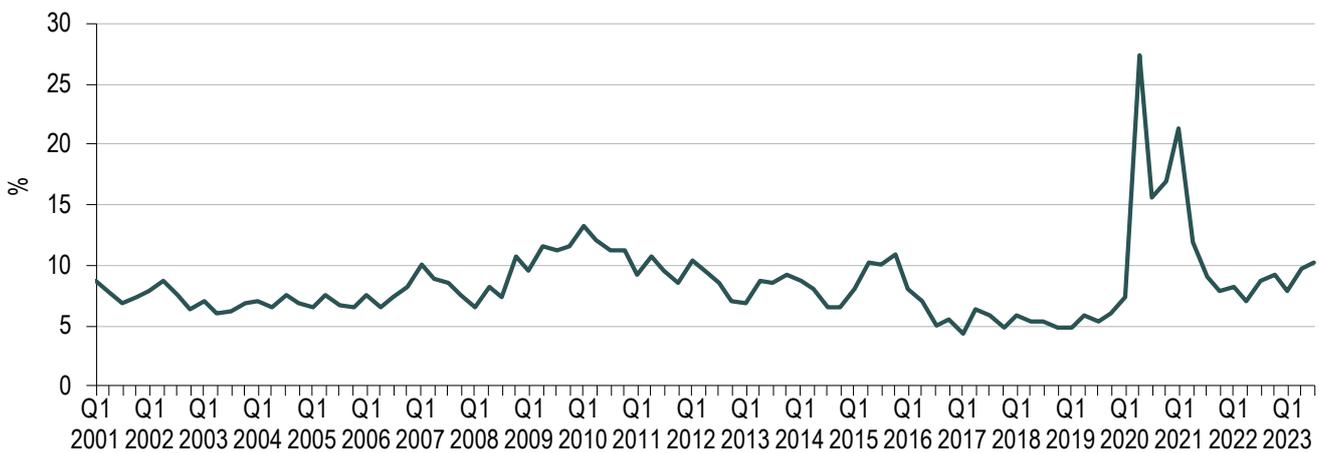
Exhibit 3: UK household final consumption



Source: Office for National Statistics. Note: Current prices, seasonally adjusted.

UK consumer spending was obviously under pressure through 2023 due to the elevated levels of inflation and higher interest rates. In addition, the household savings ratio increased, likely a result of higher rates and precautionary savings ahead of anticipated challenging times.

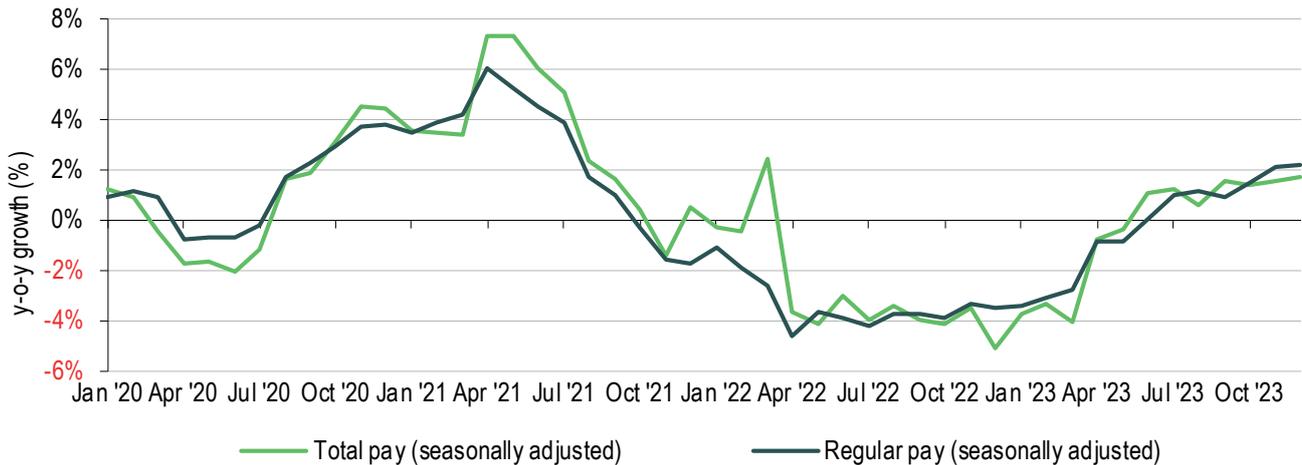
Exhibit 4: UK household savings ratio



Source: Office for National Statistics

The UK consumer has been helped by real year-on-year increases in average weekly wages since June 2023, and the real increases have gradually increased, month-on-month, as inflation has eased.

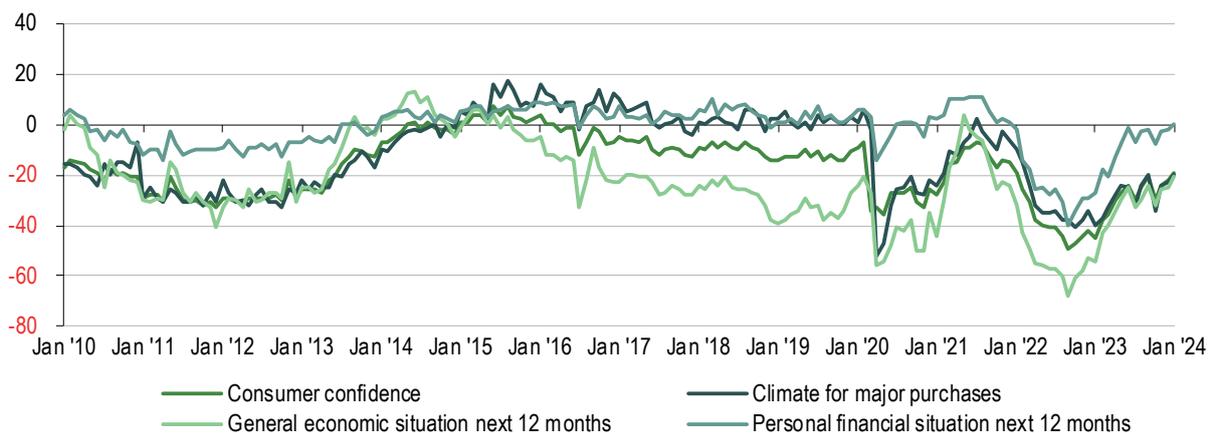
Exhibit 5: UK real weekly earnings



Source: Office for National Statistics

The improvement in real pay would appear to be feeding through to improvements in consumer confidence, albeit this remains weak. The UK consumer confidence indicators were pretty erratic through 2023. Broadly, they have been on a general uptrend since reaching all-time lows towards the end of 2022, but there were wobbles along the way, notably in July 2023 and October 2023, when all or most of the constituent indicators headed south again. The most recent, February 2024 reading for overall consumer confidence slipped back again from -19 in January to -21 in February, following three consecutive month-on-month improvements for all of the constituent indicators. Most notably, January 2024 included the first non-negative read for 'personal financial situation next 12 months' for the first time since December 2021 and was unchanged at zero in February 2024. The February 2024 data are not shown in Exhibit 6 below as not available on Refinitiv at the date of writing.

Exhibit 6: GfK UK consumer confidence indicators



Source: Refinitiv

The latest (January 2024) retail sales data (source: Office for National Statistics) provided some cause for optimism, with a headline figure of strong month-on-month volume growth in retail sales including auto fuel of 3.4%, and growth in all categories excluding clothing and footwear. The data were released the day after the news that the UK economy had slipped into recession in H223. The improvement followed a very

disappointing December, which saw volume decline by 3.3%, the largest monthly fall since January 2021. If we step back and look at year-on-year growth in retail sales excluding auto fuel, it is clear overall value growth slowed through 2023 as inflation eased and volume growth is responding slowly to the lower inflation. From a volume perspective, the year-on-year growth in January 2024 was achieved against an easy comparative from January 2023. January 2024's overall volume growth, excluding auto fuel, of +0.7% was against a January 2023 figure of -5.8%. Volume in predominantly food stores grew by 0.6% y-o-y, its first positive growth rate since December 2021, albeit this was achieved against a January 2023 comparative of -3.6%. Non-food store volume growth remained marginally negative, -0.1% in January 2024, also against an easy comparative of -3.5%, and having been marginally positive on a couple of occasions through 2023, in August and November.

Exhibit 7: Retail sales – value

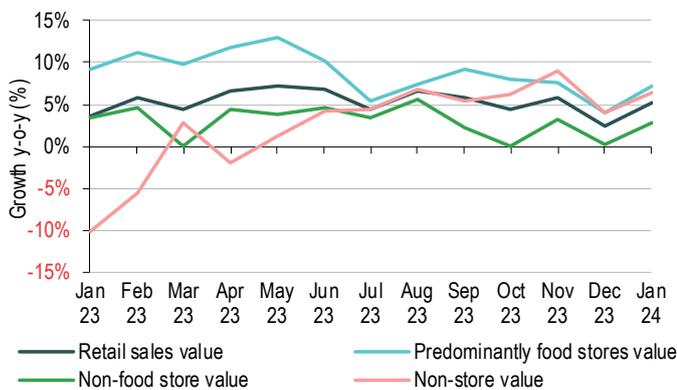
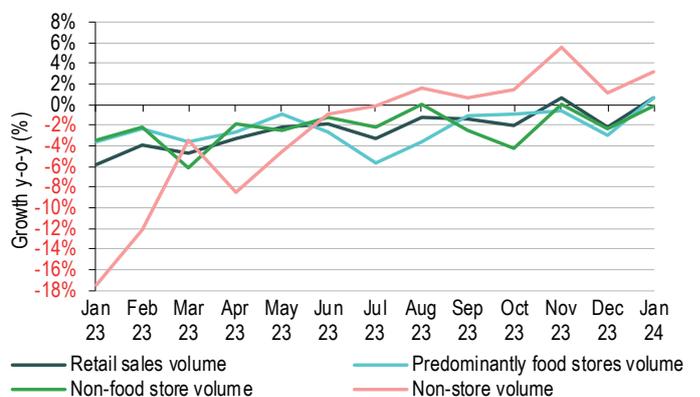


Exhibit 8: Retail sales – volume



Source: Office for National Statistics Source: Office for National Statistics

Having read many trading statements since the start of the year, our sense is that the majority of companies have come through the Christmas and year-end period relatively unscathed, apart from notable profit warnings from the likes of Burberry, JD Sports and Watches of Switzerland Group in the UK.

So we conclude that the recent data are supportive of the hoped-for and predicted recovery by the BoE and IMF, but the charts above suggest we should expect some volatility in the monthly data, perhaps inevitable in the predicted below-trend growth.

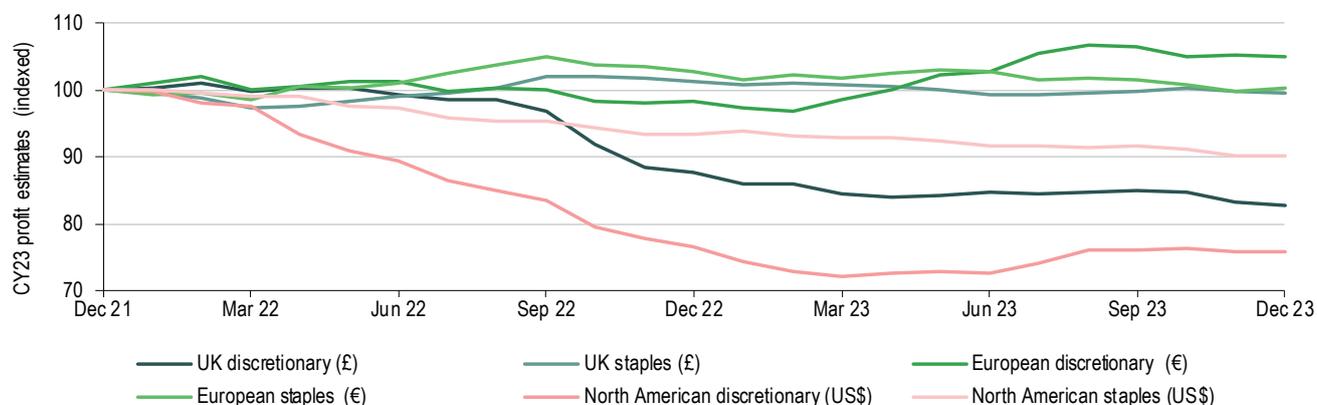
OUTLOOK FOR CY24

Goodbye to a challenging 2023 for profit forecasts

In the sections below, we look at what happened to the share prices and consensus CY23 profit (EBIT) estimates for the consumer sectors in Q423 and the whole of 2023. We then look at the consensus growth estimates, revenue and profit, for CY24 and screen for valuation opportunities in the sectors across the UK, Continental Europe and North America.

As a brief summary, Q423 was a challenging period for consensus CY23 profit estimates, with downgrades to the aggregates for discretionary and staples sectors in all three geographies. This brought to an end an overall challenging year, during which only the European discretionary sectors saw net upgrades to consensus CY23 profit estimates, albeit there was some forecast momentum at various stages through the year. These downgrades naturally flowed through to estimates for CY24.

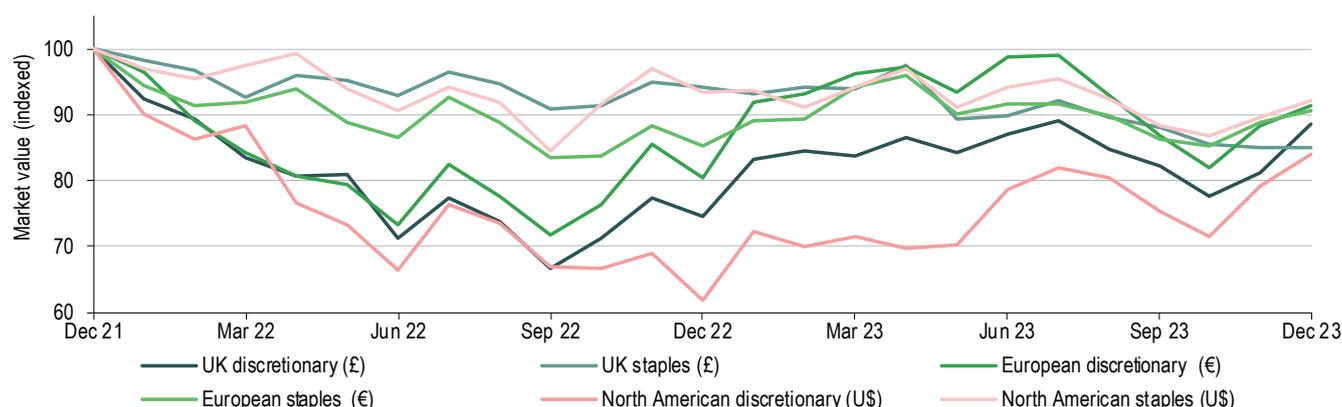
Exhibit 9: Consensus CY23 profit estimates (indexed to December 2021)



Source: Refinitiv, Edison Investment Research

From a share price perspective, all the sector aggregates (ie for discretionary and staples) underperformed their regional benchmarks in Q423, likely not helped by the more negative trend in consensus forecasts. However, the majority of the sector aggregates enjoyed a positive Q423 as markets bet on better times ahead with the belief that interest rates and inflation have peaked. Through the whole of CY23, the discretionary sectors in all regions fared better than their staples counterparts, and special mention goes to the UK and North American discretionary sectors, which outperformed their benchmarks, despite net downgrades to consensus CY23 profit estimates through the year.

Exhibit 10: Performance of consumer sectors (indexed to December 2021)



Source: Refinitiv, Edison Investment Research

Consensus expectations for CY24

As at 15 February 2024, consensus was expecting year-on-year profit growth of 5% in the UK, 4% in Continental Europe and 13% in North America. The discretionary sectors are driving the expected growth for the UK and North America and, as we demonstrate in the following sections, consensus is expecting year-on-year profit growth for a high proportion of the individual companies.

Exhibit 11: Consensus consumer growth expectations

	Revenue growth		Profit growth	
	CY23e	CY24e	CY23e	CY24e
UK total (£)	10%	3%	18%	5%
- UK discretionary (£)	17%	5%	45%	12%
- UK staples (£)	5%	2%	9%	2%
Continental Europe (€)	7%	3%	9%	4%
- Continental Europe discretionary (€)	8%	3%	11%	2%
- Continental Europe staples (€)	4%	3%	4%	7%
North America (US\$)	4%	5%	13%	13%
- North America discretionary (US\$)	5%	7%	19%	17%
- North America staples (US\$)	3%	3%	7%	8%

Source: Refinitiv, Edison Investment Research. Note: Data at 15 February 2024.

Valuation opportunities in the consumer sectors

We identify valuation opportunities by looking at prospective multiples versus their long-term average. We focus on EV/sales in our screens but also show P/E multiples given the difficulties of comparing, say, EV/EBITDA multiples either side of the adoption of IFRS 16 for accounting periods that began on or after 1 January 2019. To make the comparison of valuations over the long term more valid, we exclude lease liabilities, introduced with the

adoption of IFRS 16, from the calculation of enterprise value. Our 'long term' covers the period 2006–23 so we recognise the changes over the most recent cycle. The figures for CY23 are by definition estimates until all companies with various financial year-ends have reported their results, so are likely to change.

In Exhibits 18, 25 and 32, we show the UK, European and North American companies whose prospective CY24 EV/sales multiples were below their long-term average at 15 February 2024.

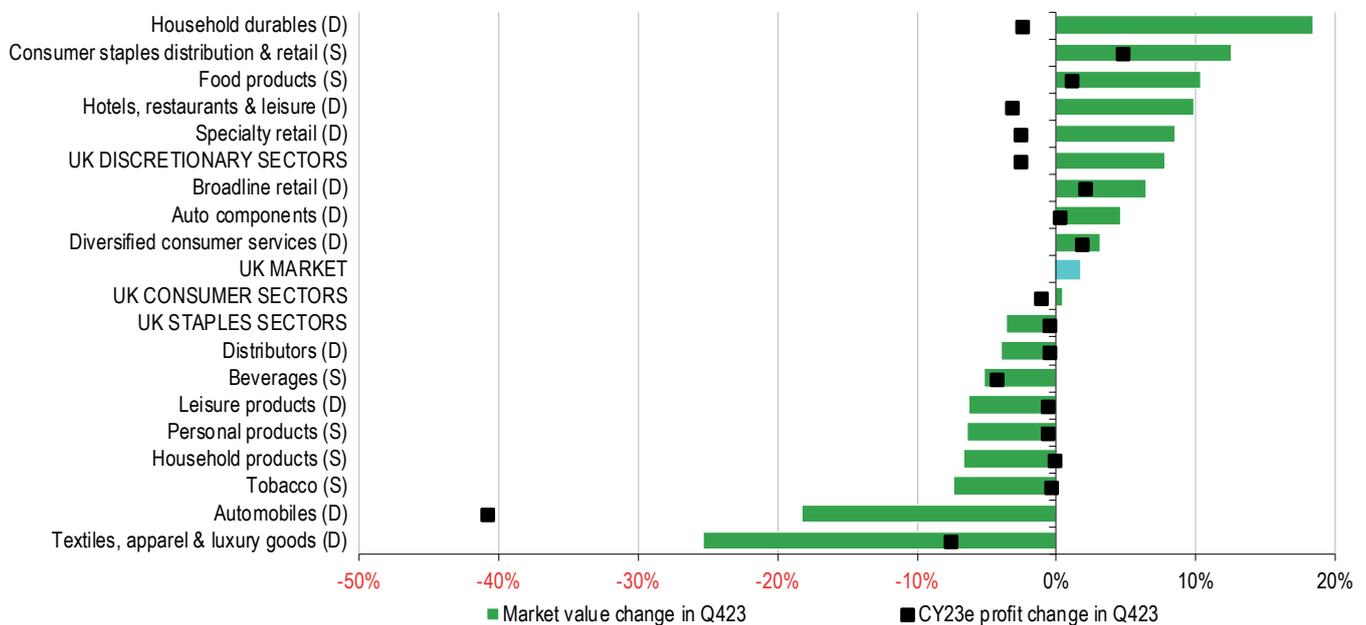
Throughout the report we use sector (ie industry) classifications as defined by the MSCI Global Industry Classification Standard and in our charts, the discretionary sectors are labelled D and the staples sectors are labeled S. In previous editions of the report, we included the data for the passenger airlines subsector, in the industrials sector, but we now exclude it.

We create the sector aggregations bottom-up (ie by summing the data for the individual companies in the sectors). The quoted changes in market values and growth rates in estimates are on a like-for-like or comparable basis (ie we only include data for a company if there are data for both the base and current period), which may therefore give a slightly different universe if looking at different periods (ie changes in Q423 versus the full year, CY23, as companies join or leave the markets). The source of our data is Refinitiv, and so we are dependent on the completeness (Refinitiv may not include data from all covering analysts and may not include every line item of the analysts' models), timeliness and therefore accuracy of its data.

UNITED KINGDOM

The UK consumer sectors were relatively unchanged in Q423 and marginally underperformed the UK market return of 1.6%. This likely reflects the still negative trend in consensus profit estimates, -1% in Q423. The discretionary sectors performed better than staples, despite net downgrades to estimates of c 3%. Directionally, the performance of the sectors followed the changes in profit estimates for all but three, with downgrades to profit estimates for household durables, hotels, restaurants and leisure, and specialty retail being rewarded with a positive performance. Upgrades to profit estimates were few and far between; only five of the 16 sectors enjoyed net upgrades to consensus CY23 profit estimates in Q423.

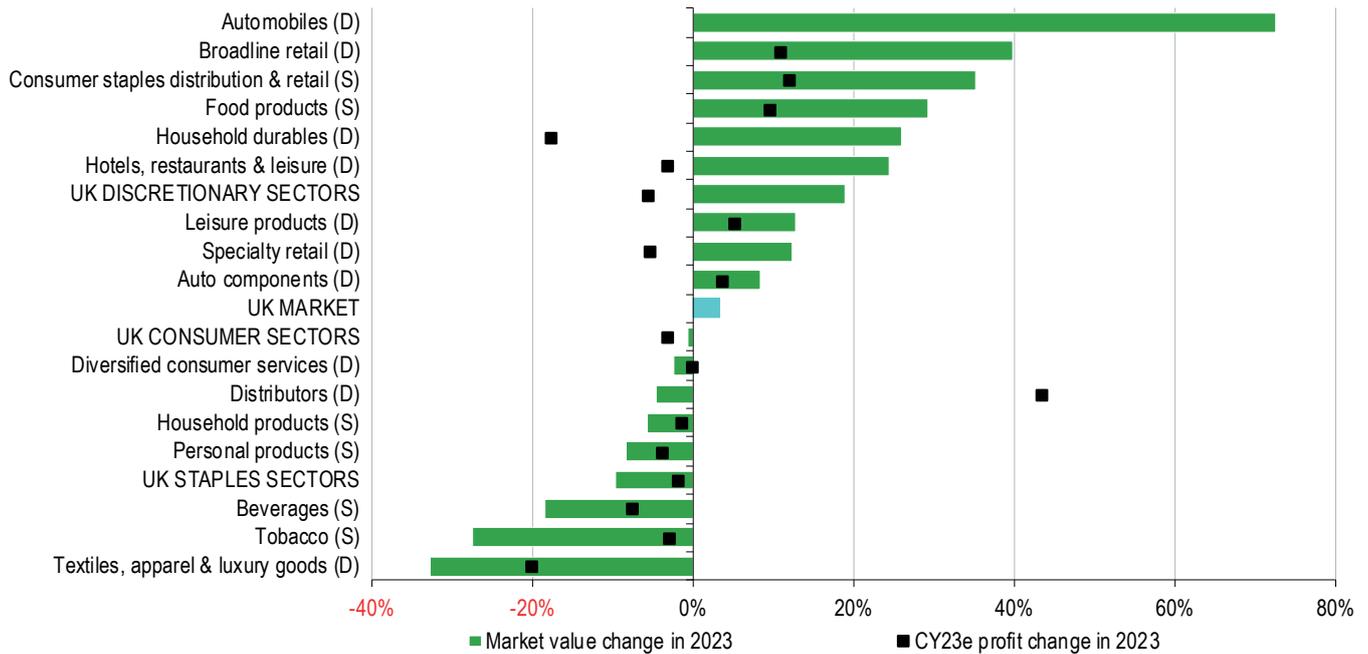
Exhibit 12: UK sector performance versus consensus CY23e profits in Q423



Source: Refinitiv, Edison Investment Research

For the year as a whole, the consumer sectors did not fare too badly given the poor macroeconomic outlook at the start of 2023. The aggregate decline of -0.6% in 2023 compares with the overall market return of 3.3%. Overall consensus profit estimates fell by 3% through the year, within which estimates for the discretionary sectors declined by c 6% versus a 2% fall for the staples sectors. The performance of the sectors broadly followed the changes to consensus profit estimates but there were some notable standouts. Distributors declined in value despite a significant upgrade to consensus profit estimates (primarily Inchcape), while automobiles (CY23e profit change not shown on chart as significant at over -300%), household durables, hotels, restaurants and leisure, and specialty retail performed well despite net downgrades to profit estimates.

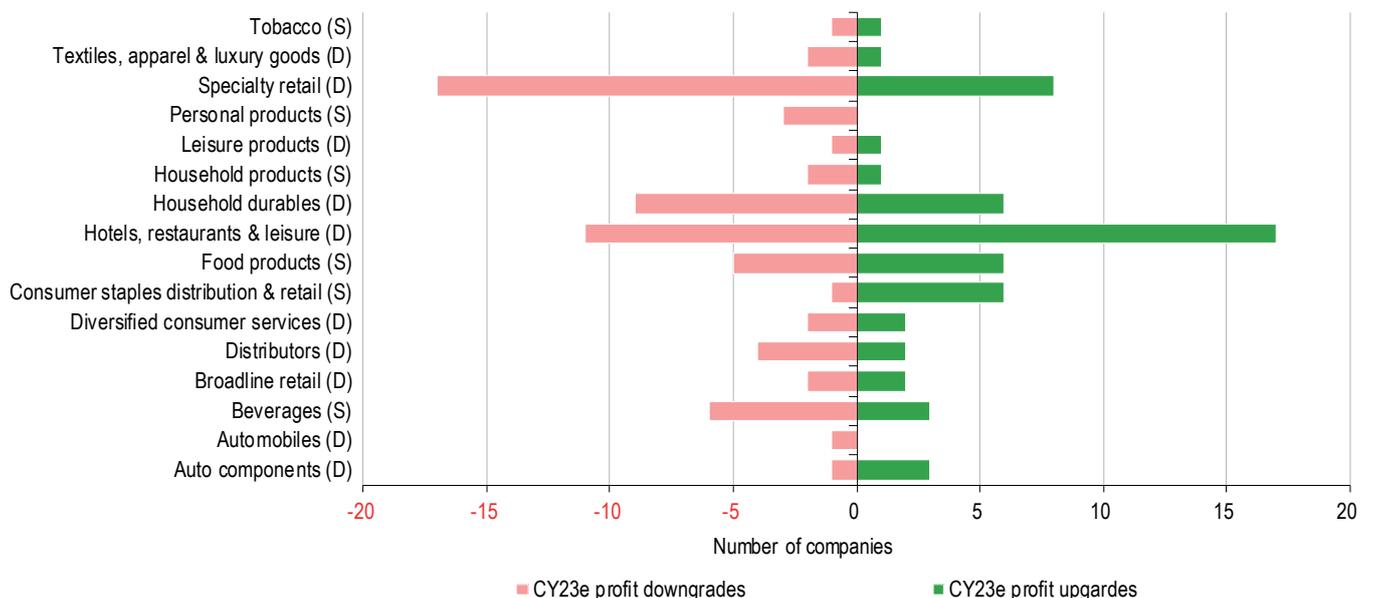
Exhibit 13: UK sector performance versus consensus CY23e profits in CY23



Source: Refinitiv, Edison Investment Research. Automobiles CY23e profit decline over 320% not shown.

To get a better feel for the underlying health of the individual sectors (ie to correct for any skewing from major companies), in Exhibit 14 below we show the number of companies that received upgrades and downgrades to consensus profit estimates in Q423. Overall, there were more downgrades (68) for companies than upgrades (59) in Q423. Specialty retail was the most negatively affected sector, but there was more optimism about the outlooks for the hotels, restaurants and leisure, and consumer staples, distribution and retail sectors. These downgrades naturally flowed through to consensus FY24 profit estimates, with upgrades for 56 companies more than offset by downgrades for 75 companies.

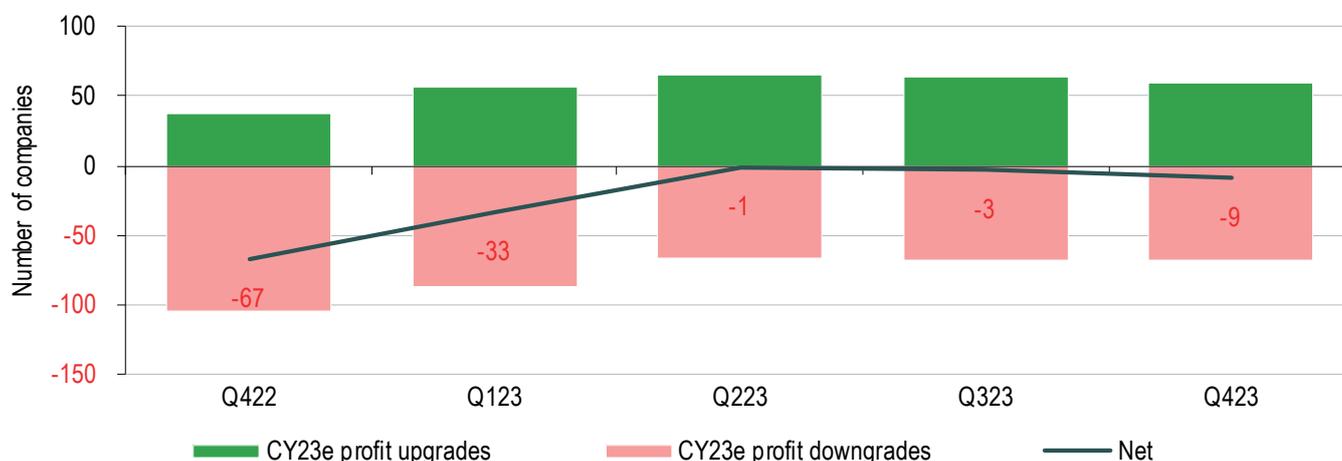
Exhibit 14: Number of companies to receives downgrades/upgrades to CY23e profit in Q423



Source: Refinitiv, Edison Investment Research

The net number of downgrades to upgrades in Q423 (-9) was greater than in Q323 (-3) and Q223 (-1), so forecast momentum deteriorated through the year, having begun to improve earlier in the year.

Exhibit 15: Quarterly progression in downgrades/upgrades to CY23e profit



Source: Refinitiv, Edison Investment Research

Outlook for CY24 and subsector valuations

Having looked at what happened to share prices and consensus profit estimates in Q423, we turn our attention to the forecast growth for the UK consumer sectors in CY24 and identify where there are potential valuation opportunities.

At 15 February 2024, consensus was forecasting the UK consumer sectors would grow revenue by 3% in CY24 and profit by 5%, which is below the expected growth rates for CY23 of 10% and 18%, respectively. The figures for CY23 were positively affected by a combination of continued post-COVID recovery and easing of some cost pressures, while the relatively tough macroenvironment obviously tempered growth expectations through the year, as shown above.

The most significant contributors to the absolute growth in expected profit from CY23 to CY24 include the hotels, restaurants and leisure; food products; personal products; consumer staples distribution and retail; and specialty retail sectors.

In Exhibit 16 we show the following for the UK consumer subsectors:

- Consensus CY24 revenue and profit growth estimates.
- The prospective EV/sales multiple for CY24, priced at 15 February 2024, and how it compared with the long-term (2006–23) average multiple. The subsectors are sorted in ascending order of the discount/premium to their long-term average multiple to highlight which are most attractively valued relative to their own trading histories.

- The CY24e profit margin relative to history, which shows how the subsector's prospective margin compares with its range of reported profit margins between 2006 and 2023. A negative percentage indicates a forecast margin that is below those achieved between 2006 and 2023, a percentage between 0% and 100% indicates where the forecast margin is within the historical range and a percentage greater than 100% indicates a forecast is greater than the subsector has achieved.

We can see that consensus is forecasting revenue growth for the majority of the subsectors, with declines expected for eight subsectors: apparel retail; computer and electronics retail; footwear; housewares and specialties; distillers and vintners; homebuilding; home furnishings; and tobacco. From a profit perspective there is greater optimism, with year-on-year declines forecast for just five of the subsectors: footwear; apparel, accessories and luxury goods; distillers and vintners; homebuilding; and tobacco. The majority of the subsectors continue to look attractive versus their historical multiples given that they trade at a discount to their long-term average EV/sales multiples, while forecast profit margins appear to be mainly within their historical ranges (ie consensus is not making brave assumptions about the recovery potential).

Exhibit 16: UK subsector growth estimates, valuations and profitability

	Sales growth CY24e (%)	Profit growth CY24e (%)	EV/sales CY24 (x)	Premium/ (discount) to long-term average	CY24e profit margin relative to history
Apparel retail (D)	(3%)	15%	0.3	(79%)	0%
Computer & electronics retail (D)	(1%)	6%	0.1	(70%)	7%
Auto parts & equipment (D)	1%	11%	0.5	(67%)	95%
Footwear (D)	(1%)	(4%)	1.3	(58%)	(3%)
Packaged foods & meats (S)	3%	16%	0.7	(54%)	82%
Automobile manufacturers (D)	17%	178%	1.1	(51%)	80%
Food distributors (S)	4%	n/a	0.4	(48%)	29%
Home improvement retail (D)	2%	0%	0.3	(48%)	2%
Housewares & specialties (D)	(0%)	39%	0.4	(45%)	42%
Apparel, accessories & luxury goods (D)	1%	(7%)	1.4	(43%)	(8%)
Food retail (S)	3%	8%	0.3	(43%)	35%
Automotive retail (D)	7%	15%	0.1	(42%)	(24%)
Leisure facilities (D)	7%	8%	1.6	(42%)	94%
Distillers & vintners (S)	(1%)	(2%)	4.4	(36%)	68%
Homefurnishing retail (D)	3%	10%	0.9	(33%)	40%
Other specialty retail (D)	7%	7%	0.6	(31%)	75%
Hotels, resorts & cruise lines (D)	13%	34%	2.4	(29%)	94%
Household appliances (D)	5%	7%	0.6	(27%)	5%
Brewers (S)	7%	6%	1.0	(27%)	74%
Agricultural products (S)	1%	17%	0.6	(25%)	31%
Broadline retail (D)	7%	10%	1.3	(20%)	26%
Soft drinks & non-alcoholic beverages (S)	3%	10%	1.3	(18%)	67%
Household products (S)	1%	3%	3.0	(15%)	40%
Distributors (D)	4%	3%	0.3	(15%)	99%
Restaurants (D)	7%	16%	1.1	(8%)	80%
Casinos & gaming (D)	9%	24%	2.3	(7%)	36%
Homebuilding (D)	(2%)	(12%)	1.2	(2%)	46%
Consumer electronics (D)	22%	50%	1.3	3%	105%
Specialised consumer services (D)	12%	13%	2.2	9%	102%
Personal products (S)	1%	3%	2.5	9%	77%
Education services (D)	0%	7%	1.9	9%	111%
Home furnishings (D)	(2%)	8%	0.9	10%	76%
Tobacco (S)	(3%)	(2%)	3.4	34%	n/a
Textiles (D)	7%	11%	1.2	42%	104%
Leisure products (D)	8%	10%	5.7	187%	130%

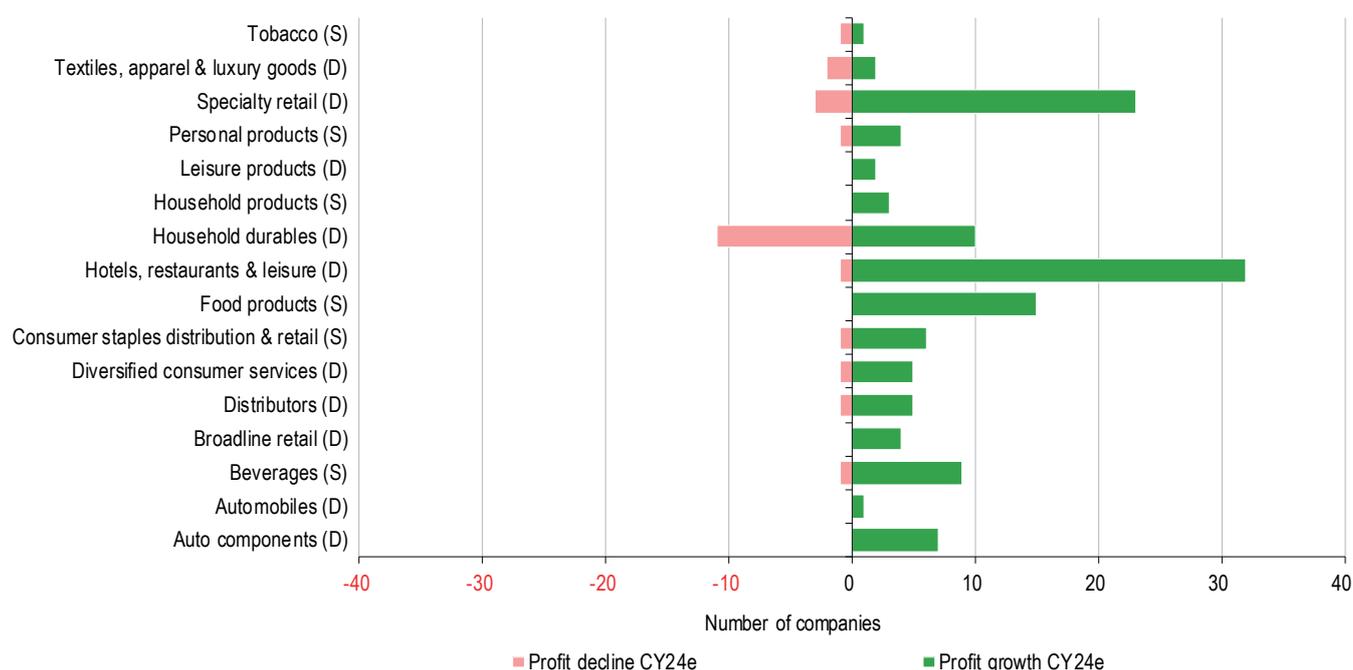
Source: Refinitiv, Edison Investment Research. Note: Data and price at 15 February 2024.

UK consumer company valuation opportunities

We turn our attention to identifying the potential valuation opportunities at the individual company level.

First, we can see in Exhibit 17 that there was high level of bullishness on 15 February 2024 at the individual company level, with consensus expecting year-on-year profit growth in CY24 for 85% of the UK consumer companies. The only sector in which more companies were expected to see lower CY24 profit than CY23 was household durables.

Exhibit 17: Number of companies with lower/higher CY24e profit than CY23e



Source: Refinitiv, Edison Investment Research. Note: Data at 15 February 2024.

In Exhibit 18 we show the 101 UK companies that, on 15 February 2024, were trading with a prospective EV/sales multiple for CY24 below the company's long-term average multiple. For each company, we include estimated revenue and profit growth rates for CY24e; how the CY24e margin compares with the long-run average; and the CY24e P/E multiple and how it compares with its own historical range of multiples.

The companies are sorted by their discount to the long-term average EV/sales multiple. We only include companies for which consensus is expecting positive free cash flow for CY23 and CY24 on a combined basis (ie we exclude those with estimated negative free cash flow and those with no estimates for free cash flow per Refinitiv).

Exhibit 18: UK company valuation screen

Company	Ticker	Share price 15 February 2024 (p)	Market value 15 February 2024 (£m)	Sales growth CY24e	EBIT growth CY24e	EV/sales CY24 (x)	Premium/ (discount) to long-term average EV/sales	CY24e EBIT margin relative	P/E CY24e (x)	P/E CY24e vs long-term average
Cairn Homes PLC	CRN	127	828	30%	28%	1.4	(94%)	100%	11.0	(86%)
ASOS PLC	ASOS	400	476	(5%)	(7%)	0.2	(87%)	1%	n/a	n/a
Virgin Wines UK PLC	VINO	38	21	5%	68%	0.1	(86%)	18%	n/a	n/a
On The Beach Group PLC	OTB	143	239	9%	27%	0.8	(82%)	78%	12.0	(96%)
Playtech PLC	PTEC	470	1,450	4%	7%	1.0	(80%)	21%	9.9	(56%)
C&C Group PLC	GCC	152	598	3%	24%	0.5	(78%)	46%	19.2	(45%)
Naked Wines PLC	WINEW	74	55	(10%)	(19%)	0.2	(77%)	44%	10.1	(39%)
Topps Tiles PLC	TPT	46	89	3%	2%	0.2	(77%)	6%	9.4	(39%)
Tortilla Mexican Grill PLC	MEX	39	15	12%	100%	0.2	(76%)	57%	43.0	(78%)
M P Evans Group PLC	MPE	754	400	3%	8%	1.6	(71%)	86%	9.0	(67%)
Safestay PLC	SSTY	23	15	1%	14%	1.4	(70%)	90%	n/a	n/a
Currys PLC	CURY	47	535	(1%)	6%	0.1	(69%)	7%	6.3	(70%)
Halfords Group PLC	HFD	187	409	4%	7%	0.3	(67%)	1%	10.6	(18%)
Science in Sport PLC	SISS	17	31	13%	(63%)	0.4	(66%)	109%	n/a	n/a
Deliveroo PLC	ROO	120	1,817	8%	(71%)	0.4	(65%)	137%	n/a	n/a
Northern Bear PLC	NTBR	63	9	4%	11%	0.1	(65%)	35%	4.7	(35%)
Fevertree Drinks PLC	FEVR	1,044	1,215	7%	139%	2.9	(65%)	24%	79.6	(49%)
GYM Group PLC	GYM	109	194	7%	30%	1.2	(64%)	80%	n/a	n/a
Rank Group PLC	RNK	74	346	7%	57%	0.5	(64%)	25%	21.9	(32%)
Trainline PLC	TRNT	323	1,524	12%	25%	3.7	(63%)	102%	32.2	(62%)
Nexteq PLC	NXQ	153	101	0%	3%	1.0	(62%)	49%	11.5	(53%)
R E A Holdings PLC	REAH	75	33	4%	24%	1.3	(61%)	35%	n/a	n/a
IG Design Group PLC	IGRI	126	123	(1%)	61%	0.2	(60%)	45%	n/a	(65%)
Card Factory PLC	CARDC	98	338	6%	3%	0.8	(59%)	57%	7.2	(57%)
Dr Martens PLC	DOCS	94	897	(1%)	(4%)	1.3	(58%)	(3%)	9.9	(44%)
Auction Technology Group PLC	ATG	581	705	22%	23%	4.6	(58%)	101%	17.3	(31%)
Greencore Group PLC	GNC	103	482	(1%)	10%	0.3	(57%)	47%	11.3	(62%)
Watches of Switzerland Group PLC	WOSG	418	999	8%	2%	0.6	(56%)	23%	9.6	(79%)
Likewise Group PLC	LIKE	20	48	6%	28%	0.3	(56%)	110%	19.2	(15%)
Marks Electrical Group PLC	MRKM	74	77	14%	17%	0.5	(53%)	2%	23.5	(21%)
Marks and Spencer Group PLC	MKS	232	4,560	4%	11%	0.4	(53%)	37%	10.6	(73%)
Loungers PLC	LGRS	214	221	16%	20%	0.6	(52%)	102%	22.8	(28%)
Anexo Group PLC	ANXA	61	72	(0%)	(6%)	0.9	(52%)	16%	3.9	(55%)
Cake Box Holdings PLC	CBOX	168	67	10%	13%	1.5	(51%)	5%	n/a	n/a
Marston's PLC	MARS	31	195	2%	12%	1.2	(51%)	42%	5.6	(71%)
PZ Cussons PLC	PZC	101	430	(8%)	(8%)	0.8	(50%)	5%	11.3	(48%)
Carnival PLC	CCL	1,096	15,097	15%	62%	1.9	(49%)	96%	742.1	(77%)
Young & Co's Brewery PLC	YNGa	1,020	525	22%	18%	1.4	(49%)	95%	14.9	(59%)
SSP Group PLC	SSPG	225	1,787	13%	33%	0.6	(48%)	98%	27.5	(95%)
Wickes Group PLC	WIX	160	399	1%	0%	0.1	(48%)	(1%)	11.1	(1%)
Victorian Plumbing Group PLC	VIC	81	264	7%	11%	0.7	(47%)	52%	17.6	(47%)
J Sainsbury PLC	SBRY	251	5,930	2%	3%	0.2	(47%)	36%	11.8	(35%)
PPHE Hotel Group Ltd	PPH	1,255	530	9%	6%	2.2	(47%)	93%	19.8	50%
Kingfisher PLC	KGF	225	4,208	1%	(2%)	0.3	(46%)	15%	9.8	(69%)
DFS Furniture PLC	DFSD	113	264	(1%)	16%	0.4	(46%)	68%	10.8	(50%)
AO World plc	AO	88	510	3%	30%	0.5	(45%)	116%	25.9	(91%)
Headlam Group PLC	HEAD	204	164	1%	11%	0.3	(45%)	4%	18.5	21%
Hostmore plc	MOREH	19	24	3%	(197%)	0.3	(44%)	61%	n/a	n/a
888 Holdings PLC	888	95	423	5%	18%	1.0	(44%)	54%	26.5	(78%)
Brighton Pier Group PLC	PIER	55	20	9%	178%	0.6	(44%)	36%	n/a	65%
Venture Life Group PLC	VLG	37	47	8%	45%	1.1	(42%)	93%	6.3	(89%)
Anpario PLC	ANP	240	49	7%	9%	1.3	(41%)	92%	21.1	(12%)
Burberry Group PLC	BRBY	1,314	4,698	1%	(8%)	1.5	(41%)	(9%)	14.0	(38%)
Tesco PLC	TSCO	276	19,442	2%	4%	0.3	(40%)	52%	11.4	(57%)
Mitchells & Butlers PLC	MAB	244	1,454	6%	22%	1.0	(40%)	41%	14.9	(56%)
Focusrite PLC	TUNE	475	280	3%	(3%)	1.5	(39%)	53%	12.5	(43%)
Supreme PLC	SUP	130	152	9%	11%	0.7	(39%)	109%	7.8	(40%)
A G Barr PLC	BAG	535	598	6%	10%	1.3	(39%)	8%	16.2	(23%)
Shepherd Neame Ltd	SHEP	705	104	7%	6%	1.0	(38%)	59%	17.3	(6%)
Colefax Group PLC	CFX	723	45	(4%)	(18%)	0.3	(37%)	37%	8.2	(6%)

Cont.

Exhibit 18: UK company valuation screen cont.

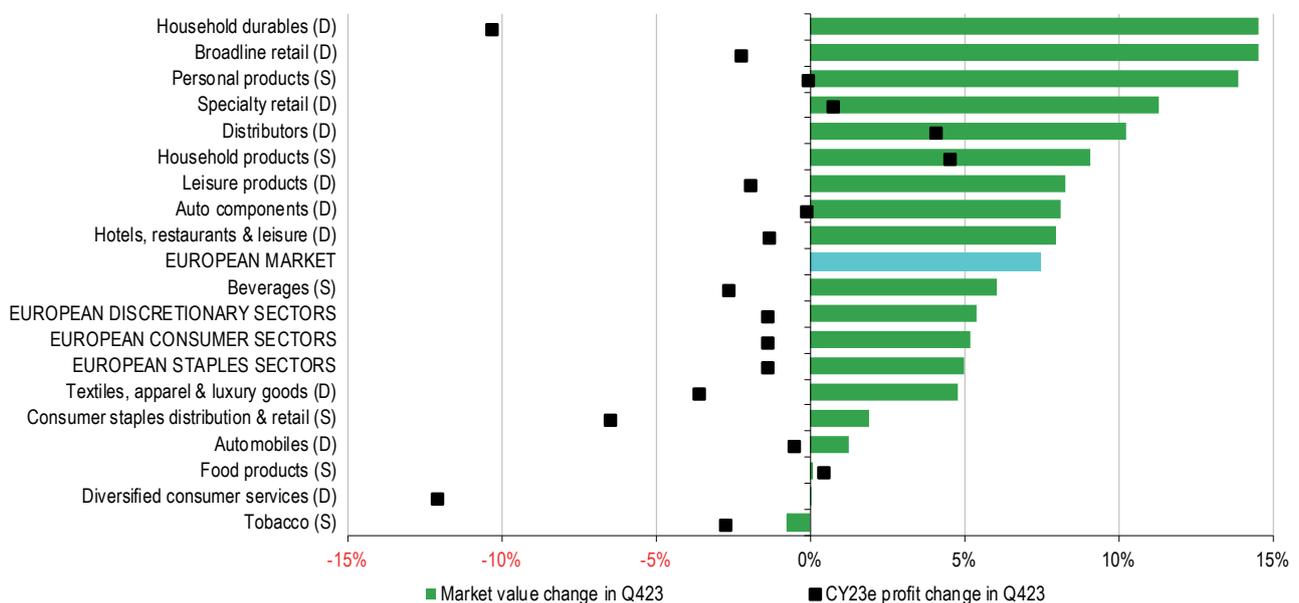
Company	Ticker	Share price 15 February 2024 (p)	Market value 15 February 2024 (£m)	Sales growth CY24e	EBIT growth CY24e	EV/sales CY24 (x)	Premium/ (discount) to long-term average EV/sales	CY24e EBIT margin relative	P/E CY24e (x)	P/E CY24e vs long-term average
Nichols PLC	NICL	1,011	368	4%	8%	1.7	(37%)	30%	18.0	(36%)
Pets at Home Group PLC	PETSP	289	1,359	5%	7%	0.9	(36%)	31%	13.5	(25%)
Smiths News PLC	SNWS	48	118	(2%)	(0%)	0.1	(35%)	105%	4.5	(57%)
Diageo PLC	DGE	2,898	64,738	(2%)	(3%)	4.8	(35%)	62%	18.4	(38%)
JD Sports Fashion PLC	JD	110	5,678	8%	5%	0.4	(34%)	61%	9.3	(46%)
Fuller Smith & Turner PLC	FSTA	626	234	3%	15%	1.0	(34%)	84%	17.5	(2%)
Hostelworld Group PLC	HSW	158	194	10%	26%	2.3	(34%)	101%	205.4	(41%)
Motorpoint Group PLC	MOTR	118	106	(8%)	295%	0.2	(33%)	33%	n/a	1959%
McBride PLC	MCB	76	132	5%	57%	0.3	(33%)	89%	9.2	(77%)
Domino's Pizza Group PLC	DOM	352	1,386	6%	10%	2.2	(33%)	19%	18.1	(28%)
Vistry Group PLC	VTYV	979	3,341	6%	12%	0.9	(32%)	68%	11.1	(52%)
Benchmark Holdings PLC	BMKB	44	323	8%	7492%	2.0	(32%)	85%	n/a	74%
Moonpig Group PLC	MOONM	162	554	8%	9%	2.0	(31%)	9%	15.6	(52%)
Whitbread PLC	WTB	3,483	6,444	7%	8%	2.0	(31%)	94%	16.0	(27%)
Bakkavor Group Plc	BAKK	95	549	1%	6%	0.4	(31%)	6%	11.6	(73%)
J D Wetherspoon PLC	JDW	790	973	5%	19%	0.8	(31%)	89%	21.7	(75%)
City Pub Group PLC	CPC	139	145	16%	22%	1.8	(29%)	101%	33.0	(56%)
Associated British Foods PLC	ABF	2,285	17,266	3%	20%	0.8	(28%)	139%	15.2	(41%)
Stelrad Group plc	SRAD	114	144	5%	7%	0.6	(27%)	5%	8.5	(73%)
B&M European Value Retail SA	BMEB	508	5,078	8%	7%	1.0	(25%)	61%	13.5	(54%)
British American Tobacco plc	BATS	2,422	54,166	(3%)	(3%)	3.4	(25%)	99%	6.4	(52%)
Springfield Properties PLC	SPRSP	77	91	(10%)	(4%)	0.5	(25%)	27%	9.0	(14%)
CT Automotive Group PLC	CTA	70	51	(6%)	20%	0.5	(24%)	112%	n/a	n/a
Hollywood Bowl Group PLC	BOWL	310	532	8%	3%	2.0	(24%)	75%	14.3	(67%)
Hilton Food Group PLC	HFG	781	698	3%	10%	0.2	(23%)	55%	15.4	(30%)
Dunelm Group PLC	DNLM	1,085	2,187	5%	7%	1.3	(23%)	26%	14.5	(14%)
TI Fluid Systems PLC	TIFS	154	794	2%	4%	0.4	(22%)	76%	9.7	(73%)
Wynnstay Group PLC	WYWYN	408	93	(5%)	6%	0.1	(22%)	11%	12.2	(1%)
Sanderson Design Group PLC	SDG	112	80	4%	(0%)	0.6	(21%)	40%	8.4	(31%)
Coca Cola HBC AG	CCH	2,440	8,929	3%	8%	1.1	(18%)	96%	14.6	(39%)
Inchcape PLC	INCH	645	2,654	4%	2%	0.3	(18%)	97%	7.4	(63%)
Accrol Group Holdings PLC	ACRL	37	116	(3%)	17%	0.6	(16%)	93%	13.3	(20%)
Barratt Developments P L C	BDEV	476	4,636	(9%)	(34%)	0.8	(16%)	41%	10.1	25%
Frasers Group PLC	FRAS	827	3,746	6%	11%	0.7	(16%)	93%	10.1	(44%)
Reckitt Benckiser Group PLC	RKT	5,702	40,631	1%	3%	3.2	(16%)	35%	17.0	(22%)
WH Smith PLC	SMWH	1,260	1,645	8%	13%	1.0	(14%)	92%	14.9	(10%)
Ab Dynamics PLC	ABDP	1,790	411	5%	6%	3.5	(8%)	62%	32.0	(34%)
Entain PLC	ENT	939	5,980	7%	14%	1.6	(4%)	42%	23.3	(38%)
Flutter Entertainment PLC	FLTRF	16,870	29,788	12%	35%	3.2	(4%)	45%	41.3	(29%)
Tribal Group PLC	TRBG	42	89	1%	5%	1.2	(4%)	91%	11.8	(51%)
Britvic PLC	BVIC	873	2,171	5%	9%	1.5	(2%)	71%	14.3	(27%)

Source: Refinitiv, Edison Investment Research

CONTINENTAL EUROPE

Investors in the Continental European consumer sectors were definitely in a forgiving mood in Q423 as all sectors bar one (tobacco) delivered a positive return, despite net downgrades to consensus FY23 profit estimates of 1%. That said, the aggregate for the consumer sectors underperformed the market. As seen in Exhibit 19 below, there was little correlation between the performance of the sectors and the changes to CY23 profit estimates in the period, suggesting investors were betting on better times ahead. The only sectors to receive upgrades to profit estimates in Q423 were household products, distributors, specialty retail and food products, in descending order.

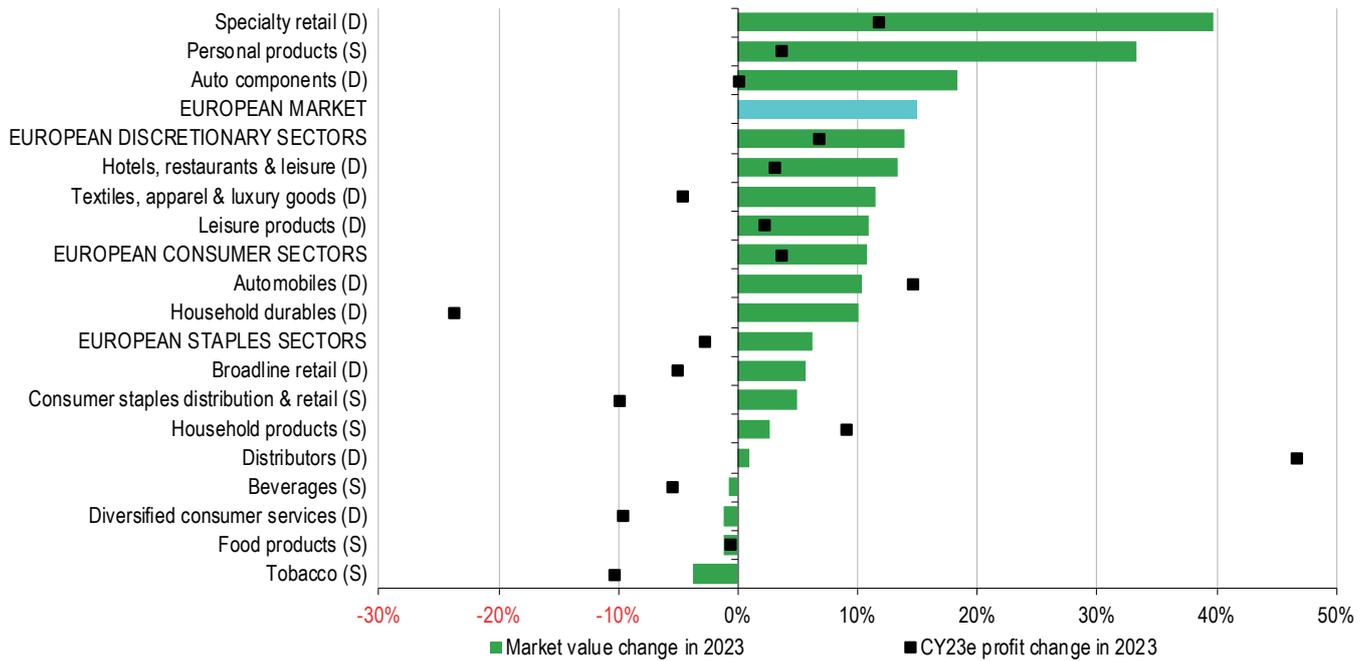
Exhibit 19: Continental European sector performance versus consensus CY23e profits in Q423



Source: Refinitiv, Edison Investment Research

The year as a whole was challenging; only three sectors (specialty retail, personal products and auto components) outperformed the market return of 15%. In aggregate the discretionary sectors marginally underperformed, with a return of 14%, but the staples return of 6% was significantly worse. In Exhibit 20 we can see that there was little correlation between the sectoral performance and changes in consensus profit estimates, but overall it was a good year for trends in aggregate profit estimates as they increased by 4%, all due to upgrades for the discretionary sectors of 7%, which were partially offset by downgrades for the staples sectors of 3%.

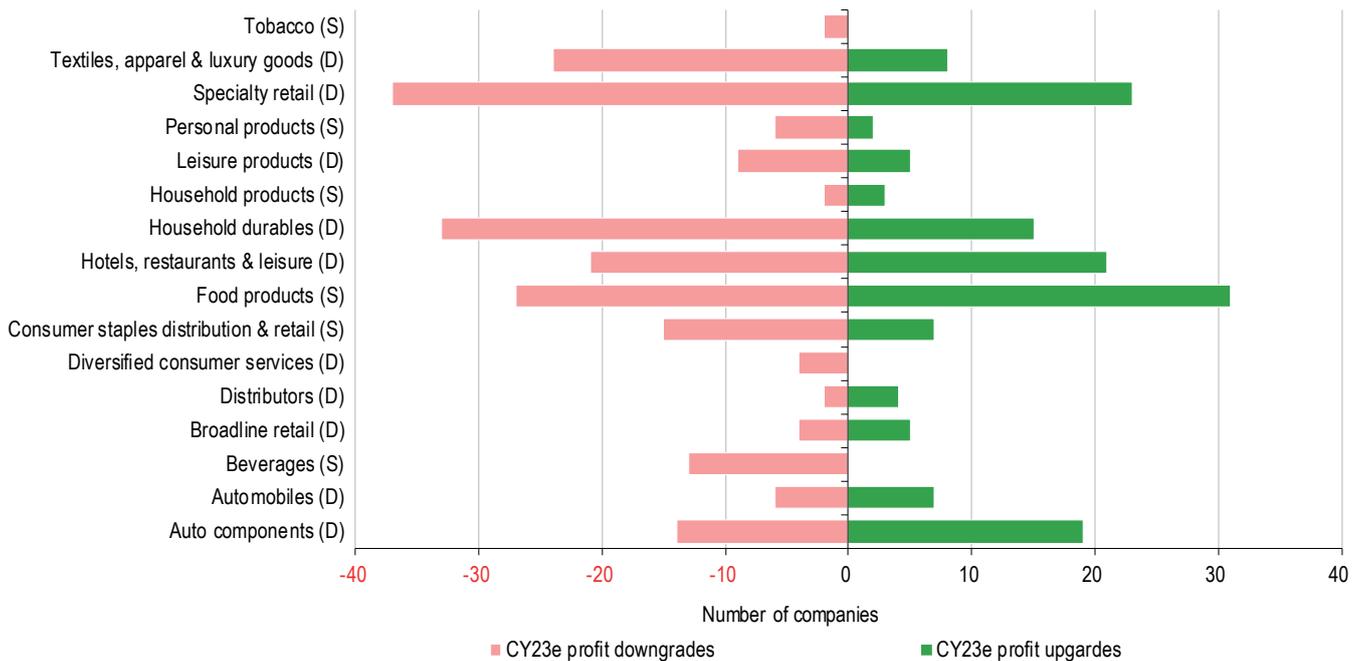
Exhibit 20: Continental European sector performance versus consensus CY23e profits in CY23



Source: Refinitiv, Edison Investment Research

At the individual company level, the scope of the downgrades to consensus CY23 profit estimates was quite broad in Q423; forecasts were downgraded for almost 60% (219) of the (369) companies for which estimates changed in the period. At the sector level, those that benefited from more upgrades than downgrades included: auto components; automobiles; broadline retail; distributors; food products; and household products.

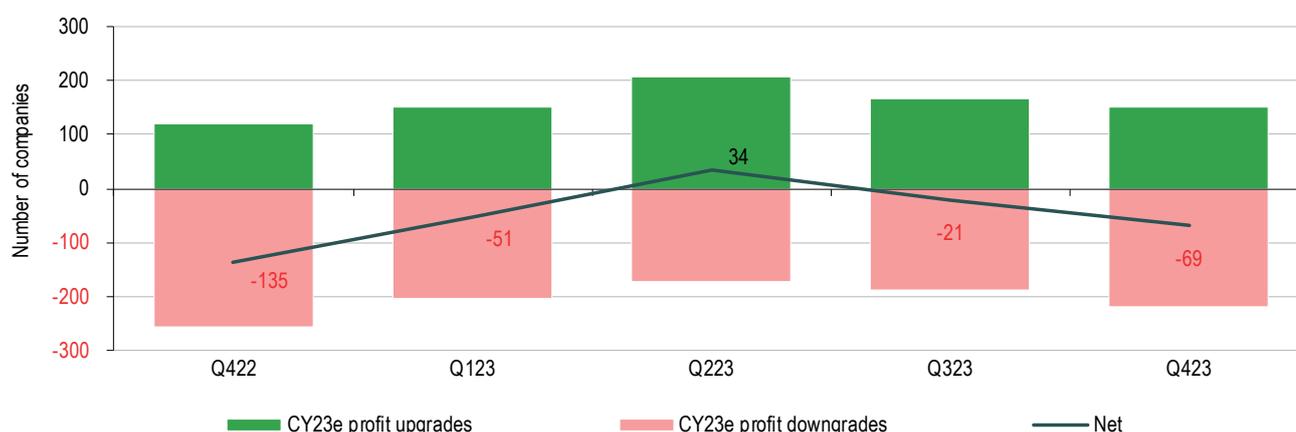
Exhibit 21: Number of companies to receives downgrades/upgrades to CY23e profit in Q423



Source: Refinitiv, Edison Investment Research

As we saw in the UK section, the momentum in the net balance of downgrades to upgrades (-69) deteriorated as the year progressed, having been on an improving trend through the earlier part of the year.

Exhibit 22: Quarterly progression in downgrades/upgrades to CY23e profit



Source: Refinitiv, Edison Investment Research

Outlook for CY24 and subsector valuations

As at 15 February 2024, consensus was expecting overall year-on-year revenue and profit growth of 3% and 4%, respectively, for the Continental European consumer sectors in CY24. This follows on from expected growth of 7% and 9%, respectively, in CY23. While similar rates of revenue growth were expected for the staples and discretionary sectors, the latter was expected to generate more significant profit growth in CY24 of 7% y-o-y versus 2% y-o-y for staples.

Below we drill down to the subsectors to look at their expected growth rates and profit margins in 2024, and how their valuations at 15 February 2024 compared to their own historical average multiples from 2006–23.

The overall growth rates included expected revenue declines for two subsectors (homebuilding and household products), but profit declines for slightly more (four) subsectors (automobile manufacturers, food distributors, homebuilding and tobacco).

The majority (ie 27) of the 37 subsectors were valued at a discount to their long-term EV/sales multiples, and the majority had expected profit margins within their historical ranges.

Exhibit 23: Continental Europe subsector growth estimates, valuations and profitability

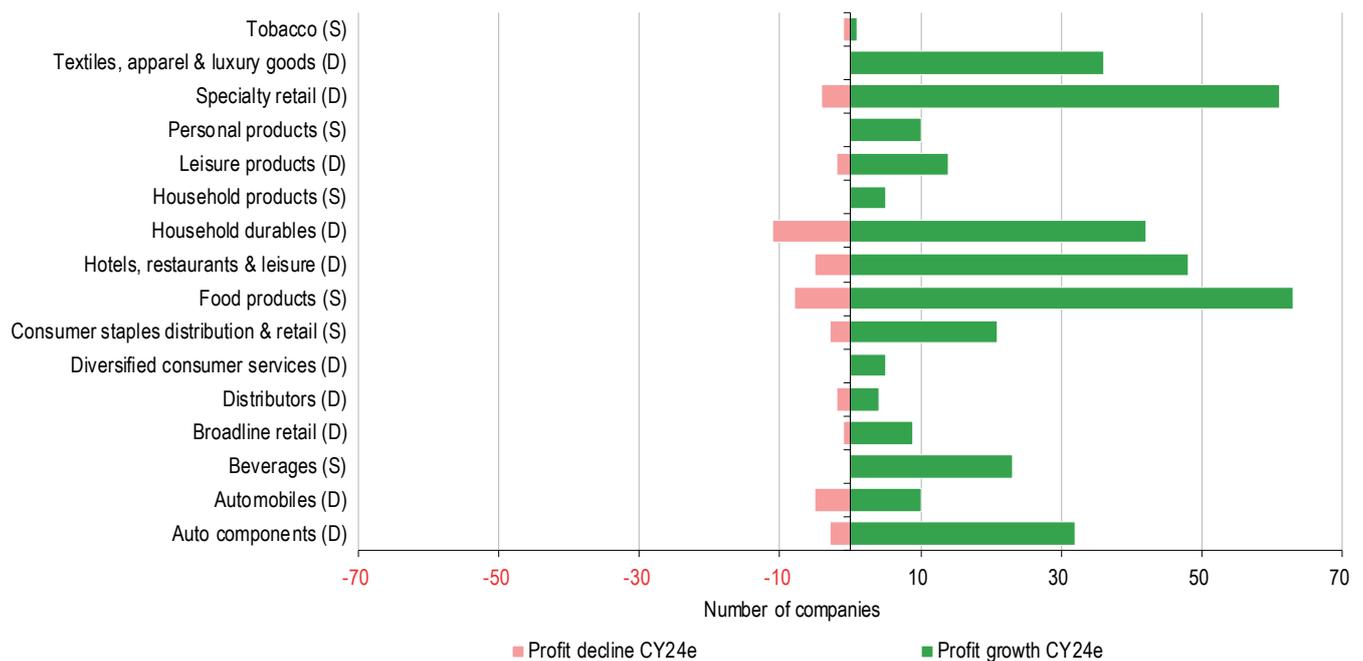
	Sales growth CY24e (%)	Profit growth CY24e (%)	EV/sales CY24 (x)	Premium/ (discount) to long-term average	CY24e profit margin relative to history
Education services (D)	11%	26%	0.3	(86%)	63%
Computer & electronics retail (D)	1%	30%	0.1	(72%)	17%
Food distributors (S)	3%	(26%)	0.1	(61%)	(28%)
Agricultural products (S)	2%	0%	0.4	(54%)	2%
Footwear (D)	6%	14%	0.7	(52%)	35%
Other specialty retail (D)	9%	24%	0.8	(47%)	76%
Automotive retail (D)	8%	79%	0.3	(39%)	7%
Homefurnishing retail (D)	6%	19%	0.5	(38%)	60%
Leisure facilities (D)	12%	33%	1.4	(36%)	88%
Textiles (D)	4%	124%	0.6	(32%)	91%
Consumer staples merchandise retail (S)	3%	25%	0.2	(30%)	25%
Food retail (S)	2%	10%	0.3	(28%)	13%
Hotels, resorts & cruise lines (D)	10%	19%	1.1	(28%)	98%
Auto parts & equipment (D)	3%	16%	0.4	(27%)	60%
Apparel retail (D)	5%	16%	1.8	(27%)	44%
Restaurants (D)	6%	112%	0.6	(26%)	71%
Broadline retail (D)	12%	19%	1.1	(25%)	98%
Home furnishings (D)	0%	36%	0.6	(24%)	42%
Consumer electronics (D)	5%	83%	1.7	(21%)	85%
Home improvement retail (D)	4%	11%	0.3	(19%)	18%
Housewares & specialties (D)	6%	7%	1.0	(16%)	100%
Automobile manufacturers (D)	2%	(5%)	0.7	(15%)	93%
Household products (S)	(4%)	6%	1.4	(13%)	52%
Homebuilding (D)	(12%)	(3%)	1.0	(9%)	8%
Brewers (S)	5%	9%	2.5	(8%)	74%
Motorcycle manufacturers (D)	0%	7%	0.7	(5%)	93%
Household appliances (D)	2%	20%	0.7	(3%)	70%
Leisure products (D)	6%	12%	1.4	4%	106%
Distillers & vintners (S)	2%	2%	3.6	4%	99%
Drug retail (S)	26%	71%	1.2	4%	84%
Tyres & rubber (D)	2%	5%	1.0	5%	81%
Packaged foods & meats (S)	2%	6%	2.0	8%	106%
Distributors (D)	7%	2%	0.8	32%	57%
Personal products (S)	7%	9%	4.6	44%	109%
Tobacco (S)	2%	(7%)	1.7	59%	64%
Apparel, accessories & luxury goods (D)	6%	7%	4.3	74%	87%
Casinos & gaming (D)	10%	15%	3.8	77%	107%

Source: Refinitiv, Edison Investment Research. Note: Data and price at 15 February 2024.

Continental European consumer company valuation opportunities

Consensus is optimistic that CY24 will be a better year for the majority of the Continental European consumer companies, with higher expected profit than CY23 for almost 90% of the companies.

Exhibit 24: Number of companies with lower/higher CY24e profit than CY23e



Source: Refinitiv, Edison Investment Research. Note: Data at 15 February 2024.

In Exhibit 25 we show the 100 Continental European consumer companies that were trading at the greatest discounts to their long-term average multiples, in descending order of the discount, at 15 February 2024. We also show year-on-year consensus revenue and profit growth estimates for CY24, and how the expected margins and prospective CY24 multiples compare to their long-term history. We only include companies for which consensus was forecasting positive free cash flow in CY23 and CY24 on a combined basis.

Exhibit 25: Continental Europe valuation screen

Company	Ticker	Share price 15 February 2024 (€)	Market value 15 February 2024 (€m)	Sales growth CY24e	EBIT growth CY24e	EV/sales CY24 (x)	Premium/ (discount) to long-term average EV/Sales	CY24e EBIT margin relative	P/E CY24e (x)	P/E CY24e vs long-term average
MHP Hotel AG	CDZO	1.2	53	23%	(85%)	0.3	(98%)	97%	n/a	n/a
Glenveagh Properties PLC	GLV	1.2	708	59%	94%	0.9	(98%)	101%	15.5	(67%)
Rapid Nutrition PLC	ALRPD	0.1	1	12%	16%	0.3	(96%)	72%	1.9	(95%)
Abitare In SpA	ABIT	4.6	123	(0%)	7%	1.0	(96%)	1%	5.4	(84%)
Humble Group AB	HUMBLE	10.4	408	13%	25%	0.7	(94%)	100%	17.9	n/a
Hochdorf Holding AG	HOCN	13.0	29	1%	122%	0.1	(86%)	87%	n/a	n/a
Hellofresh SE	HFGG	12.5	2,161	8%	57%	0.2	(86%)	64%	22.1	(69%)
Ceconomy AG	CECG	2.0	989	1%	37%	0.0	(82%)	28%	43.1	(83%)
Delticom AG	DEXGn	2.4	35	3%	13%	0.1	(81%)	21%	13.1	(73%)
Acroud AB	ACROUD	1.4	21	8%	(141%)	0.8	(80%)	85%	n/a	(100%)
XXL ASA	XXL	0.8	93	8%	(86%)	0.2	(79%)	40%	n/a	n/a
Pierce Group AB (publ)	PIERCE	6.9	48	3%	(139%)	0.2	(78%)	76%	n/a	(83%)
Hexaom SA	ALHEX	19.5	134	(21%)	(27%)	0.1	(77%)	28%	5.4	(51%)
Zalando SE	ZALG	20.0	5,281	3%	44%	0.4	(75%)	52%	50.4	(82%)
Maisons du Monde SA	MDM	4.5	177	6%	20%	0.2	(75%)	7%	12.2	(43%)
SRP Groupe SA	SRPG	1.0	124	4%	219%	0.1	(74%)	72%	1240.8	(81%)
Platform Group AG	TPGG	6.0	104	11%	84%	0.2	(73%)	67%	38.3	(94%)
TUI AG	TUI1n	6.3	3,165	10%	22%	0.1	(72%)	102%	6.5	(89%)
Eurocash SA	EUR	15.6	499	7%	9%	0.1	(72%)	51%	20.5	(57%)
Erlingklinger AG	ZILGn	5.5	348	3%	17%	0.4	(71%)	10%	11.6	(66%)
Westwing Group SE	WEW	7.5	157	4%	(36%)	0.2	(71%)	58%	n/a	n/a
CCC SA	CCCP	65.8	1,041	18%	116%	0.5	(71%)	24%	n/a	(27%)
Greenyard NV	GREENY	5.3	271	5%	16%	0.1	(70%)	28%	10.3	(81%)
U10 Corp SA	ALU10	1.2	20	4%	28%	0.2	(70%)	15%	24.5	(2%)
Cloetta AB	CLOEb	18.6	463	8%	6%	0.8	(68%)	64%	11.1	(64%)
Angler Gaming PLC	ANGLR	3.9	26	13%	23%	1.0	(67%)	40%	17.4	(29%)
Allegro.eu SA	ALEP	32.0	7,767	12%	33%	3.3	(66%)	19%	34.5	(81%)
Raketech Group Holding PLC	RAKE	16.4	62	21%	21%	0.7	(66%)	0%	7.3	(52%)
ForFarmers NV	FFARM	2.4	214	1%	48%	0.1	(66%)	11%	12.5	(68%)
Harm Reduction Group AB	NOHARM	0.2	6	43%	(68%)	0.2	(65%)	(78%)	n/a	n/a
BHG Group AB	BHGF	16.2	256	7%	n/a	0.4	(65%)	61%	n/a	(74%)
Fodelia Oyj	FODELIA	5.2	42	13%	12%	0.8	(64%)	67%	23.1	(99%)
Lastminute.com NV	LMN	21.0	258	9%	50%	0.4	(63%)	90%	23.6	(40%)
H & M Hennes & Mauritz AB	HMb	141.6	17,924	1%	34%	0.8	(62%)	28%	19.4	(47%)
Bang & Olufsen A/S	BO	9.6	157	2%	1352%	0.4	(62%)	77%	n/a	(94%)
Poulaillon SA	ALPOU	5.3	27	4%	(28%)	0.2	(61%)	76%	7.3	(71%)
SMCP SA	SMCP	2.8	214	2%	10%	0.4	(61%)	64%	5.8	(76%)
Feintool International Holding AG	FTON	17.6	272	(2%)	27%	0.3	(60%)	69%	18.4	(58%)
Duell Oyj	DUELL	0.0	36	1%	20%	0.6	(60%)	5%	n/a	(80%)
Centrale del Latte d'Italia SpA	CLII	3.0	41	1%	4%	0.2	(59%)	77%	5.6	(91%)
Compagnie des Alpes SA	CDAF	14.0	702	6%	12%	0.6	(59%)	89%	7.6	(57%)
Bellini Nautica SpA	BELLN	1.4	9	21%	85%	0.5	(57%)	79%	14.3	(70%)
Meko AB	MEKO	116.0	577	5%	14%	0.5	(57%)	4%	11.5	(43%)
Sligro Food Group NV	SLIGR	13.2	583	5%	127%	0.3	(57%)	58%	44.9	(47%)
Byggmax Group AB	BMAX	36.6	191	4%	47%	0.4	(56%)	16%	15.7	(46%)
Midsona AB	MSONb	7.2	93	(0%)	121%	0.4	(56%)	83%	26.9	(42%)
Masoval AS	MASM	27.6	297	17%	42%	1.7	(55%)	28%	15.9	(21%)
Pepco Group NV	PCOP	21.6	2,858	12%	15%	0.5	(55%)	9%	16.6	(63%)
Avolta AG	AVOL	35.5	5,670	8%	19%	0.6	(55%)	92%	18.1	(95%)
Gaming Innovation Group Inc	GIG	30.5	345	36%	24%	2.1	(54%)	98%	14.4	(87%)
Kamux Oyj	KAMUX	5.2	207	8%	56%	0.2	(54%)	28%	15.9	(52%)
Stockmann Oyj Abp	STOCKA	2.9	451	2%	(5%)	0.4	(54%)	91%	7.6	(38%)
Bonduelle SA	BOND	9.9	320	3%	20%	0.3	(54%)	11%	9.6	(46%)
Alfio Bardolla Training Group SpA	ABTG	2.4	13	29%	92%	0.5	(53%)	73%	12.3	(52%)

Cont.

Exhibit 25: Continental Europe valuation screen cont.

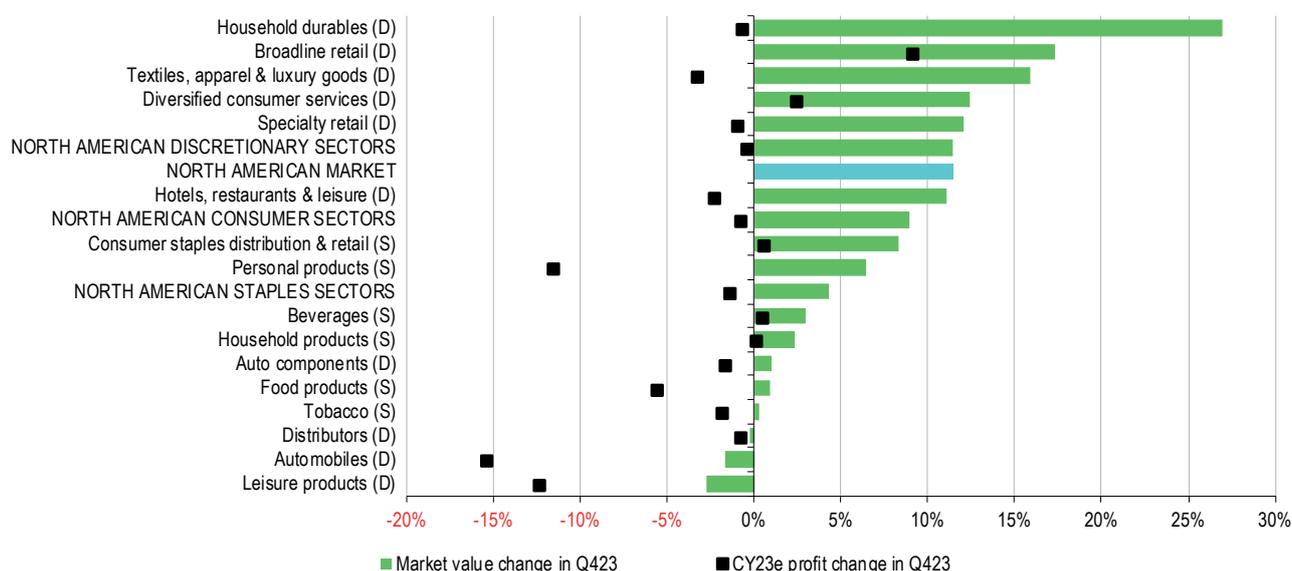
Company	Ticker	Share price 15 February 2024 (€)	Market value 15 February 2024 (€m)	Sales growth CY24e	EBIT growth CY24e	EV/sales CY24 (x)	Premium/ (discount) to long-term average EV/Sales	CY24e EBIT margin relative	P/E CY24e (x)	P/E CY24e vs long-term average
Erlebnis Akademie AG	EADG	5.3	13	27%	1667%	1.3	(53%)	104%	n/a	(87%)
Betsson AB	BETSb	107.1	1,148	9%	14%	1.0	(53%)	68%	6.2	(47%)
Verkkokauppa.com Oyj	VERK	2.6	116	3%	80%	0.2	(53%)	31%	38.6	(80%)
What's Cooking Group NV	WHATS	59.0	109	3%	69%	0.2	(53%)	38%	10.9	(61%)
B&S Group SA	BSGR	3.7	307	5%	21%	0.2	(52%)	34%	9.6	(68%)
Compagnie Plastic Omnium SE	PLOF	10.3	1,498	2%	10%	0.3	(51%)	41%	8.5	(41%)
Swatch Group AG	UHR	212.9	11,533	1%	(2%)	1.1	(51%)	56%	12.2	(35%)
Austevoll Seafood ASA	AUSS	74.4	1,323	4%	42%	0.6	(51%)	59%	12.0	(62%)
Winfarm SA	ALWF	5.8	12	7%	482%	0.3	(50%)	108%	46.2	(95%)
Distribuidora Internacional de Alimentacion SA	DIDA	0.0	700	(8%)	(114%)	0.2	(49%)	60%	n/a	n/a
Elior Group SA	ELIOR	2.7	674	12%	116%	0.3	(49%)	66%	n/a	(65%)
M2i SA	ALMII	3.4	18	7%	58%	0.3	(49%)	79%	9.0	(74%)
Oponeo.pl SA	OPN	48.3	155	14%	21%	0.3	(49%)	46%	16.1	(53%)
Cofle SpA	CFL	7.6	46	9%	42%	0.7	(48%)	37%	10.3	(69%)
Kaufman & Broad SA	KOF	30.1	594	(18%)	(26%)	0.3	(48%)	48%	10.4	(13%)
Neinor Homes SA	HOME	10.4	776	2%	(30%)	1.5	(48%)	78%	8.6	(14%)
Omer Decugis & Cie SA	ALODC	4.5	39	14%	261%	0.2	(47%)	252%	39.8	(95%)
Kjell Group AB (publ)	KJELL	20.0	55	2%	18%	0.4	(46%)	21%	17.6	(60%)
Dalata Hotel Group PLC	DHG	4.7	1,054	8%	6%	1.8	(46%)	97%	11.8	(61%)
Sonae SGPS SA	YSO	0.9	1,738	3%	(4%)	0.3	(46%)	62%	6.2	(35%)
Monnalisa SpA	MONNA	1.8	9	12%	(107%)	0.4	(46%)	92%	n/a	n/a
Fenix Outdoor International AG	FEOIb	664.0	652	1%	11%	0.8	(46%)	32%	13.3	(32%)
Rugvista Group AB (publ)	RUG	60.4	111	9%	11%	1.4	(45%)	20%	16.6	(46%)
Matas A/S	MATAS	113.0	578	26%	31%	0.8	(45%)	3%	14.1	(17%)
Ibersol SGPS SA	IBS	6.6	280	6%	40%	0.5	(45%)	59%	22.7	(10%)
Marr SpA	MARR	11.1	738	4%	13%	0.4	(44%)	68%	15.2	(33%)
AcadeMedia AB	ACADE	48.1	448	10%	14%	0.3	(44%)	19%	6.9	(54%)
Scandic Hotels Group AB	SHOTE	48.5	818	2%	11%	0.5	(43%)	87%	8.2	(61%)
Fielmann Group AG	FIEG	43.5	3,640	8%	18%	1.6	(43%)	27%	27.1	(20%)
Puma SE	PUMG	42.1	6,324	4%	6%	0.7	(43%)	35%	20.7	(78%)
RVRC Holding AB	RVRC	58.4	581	19%	27%	3.2	(43%)	25%	23.3	(43%)
NH Hotel Group SA	NHH	4.3	1,883	15%	14%	1.0	(42%)	97%	17.7	(69%)
Kindred Group PLC	KINDSdb	122.5	2,485	9%	28%	1.5	(42%)	23%	17.7	(21%)
Continental AG	CONG	76.7	15,271	3%	14%	0.5	(42%)	46%	10.7	(69%)
Groupe LDLC SA	ALLDL	18.5	114	5%	73%	0.2	(41%)	35%	43.7	(22%)
Amrest Holdings SE	EATP	28.0	1,409	8%	44%	0.7	(41%)	80%	24.3	(83%)
Colruyt Group NV	COLR	38.9	4,934	3%	16%	0.4	(40%)	24%	16.8	(22%)
V-ZUG Holding AG	VZUG	60.5	408	3%	59%	0.5	(40%)	52%	18.1	(67%)
Gestamp Automocion SA	GEST	3.0	1,747	4%	5%	0.3	(40%)	91%	5.5	(63%)
Grammer AG	GMMG	10.2	155	6%	33%	0.2	(40%)	47%	3.6	(89%)
Belysse Group NV	BELYS	0.7	24	1%	59%	0.5	(40%)	71%	n/a	(94%)
Novem Group SA	NVM	7.0	301	(4%)	(3%)	0.6	(39%)	4%	6.0	(48%)
Tod's SpA	TOD	43.0	1,417	5%	13%	1.3	(39%)	63%	33.0	4%
Hugo Boss AG	BOSSn	63.2	4,432	9%	20%	1.0	(39%)	68%	17.7	(23%)
Leifheit AG	LEIG	14.0	139	4%	233%	0.4	(39%)	81%	46.3	(74%)
Sogefi SpA	SGFI	1.9	227	2%	1%	0.3	(38%)	34%	4.3	(88%)

Source: Refinitiv, Edison Investment Research

NORTH AMERICA

There was a similar pattern of performance in North America as seen in Continental Europe: good absolute performance (9%) but underperformance versus the market (11%) return. The overall underperformance masks a better performance by the discretionary sectors, which matched the market in Q423, and the relatively poor performance (4%) by the staples sectors. Directionally, the performance of the sectors contrasted with the net downgrades to consensus profit estimates of 1% in the period, only five of the 16 sectors enjoyed upgrades to consensus CY23 profit estimates in Q423. From a profit expectations perspective, the broadline retail sector fared best with upgrades of 9%, while the automobiles sector fared worst with downgrades of 15%.

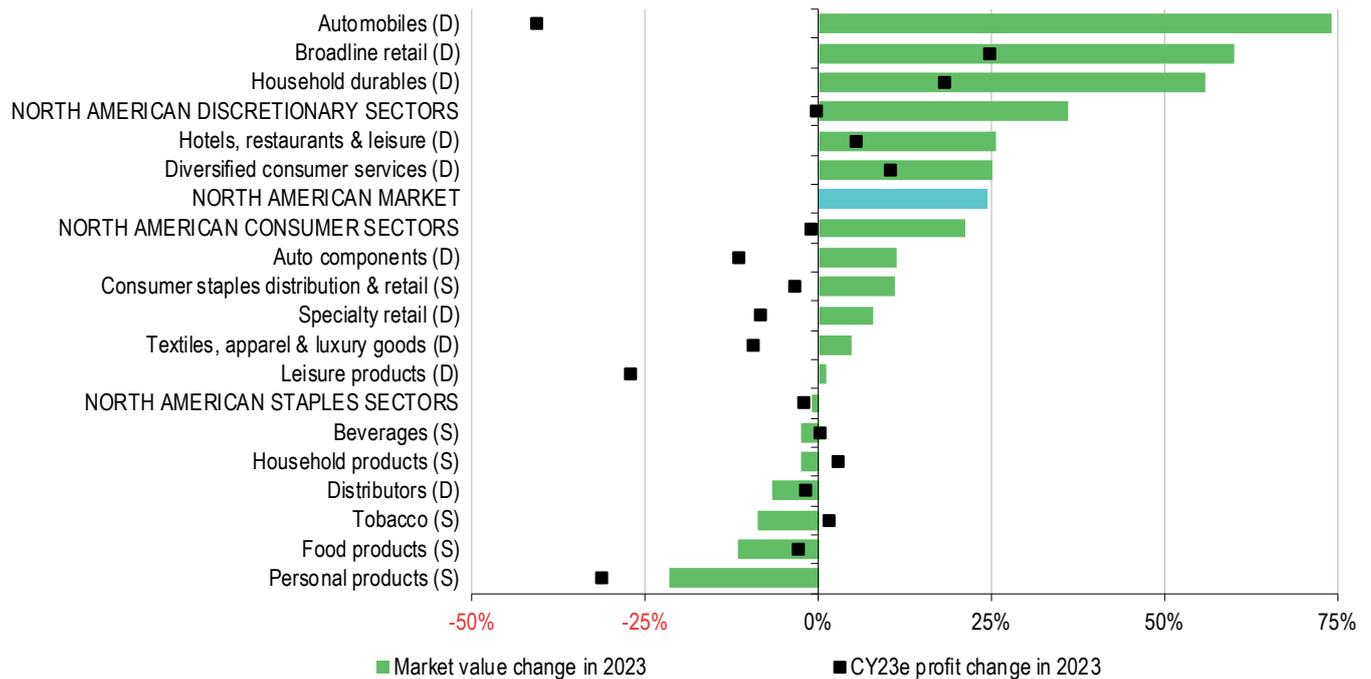
Exhibit 26: North American sector performance versus consensus CY23e profits in Q423



Source: Refinitiv, Edison Investment Research

For the year as a whole, the consumer sectors returned 21% versus 24% by the market. The discretionary sectors significantly outperformed with a 36% positive return, but the staples significantly underperformed with a decline of 1%. The strong performance by the discretionary sectors was despite marginal (ie less than 1%) net downgrades to profit estimates during the year. The household products, beverages and tobacco sectors appear to have been unfairly treated with negative returns despite upgrades to profit estimates through 2023.

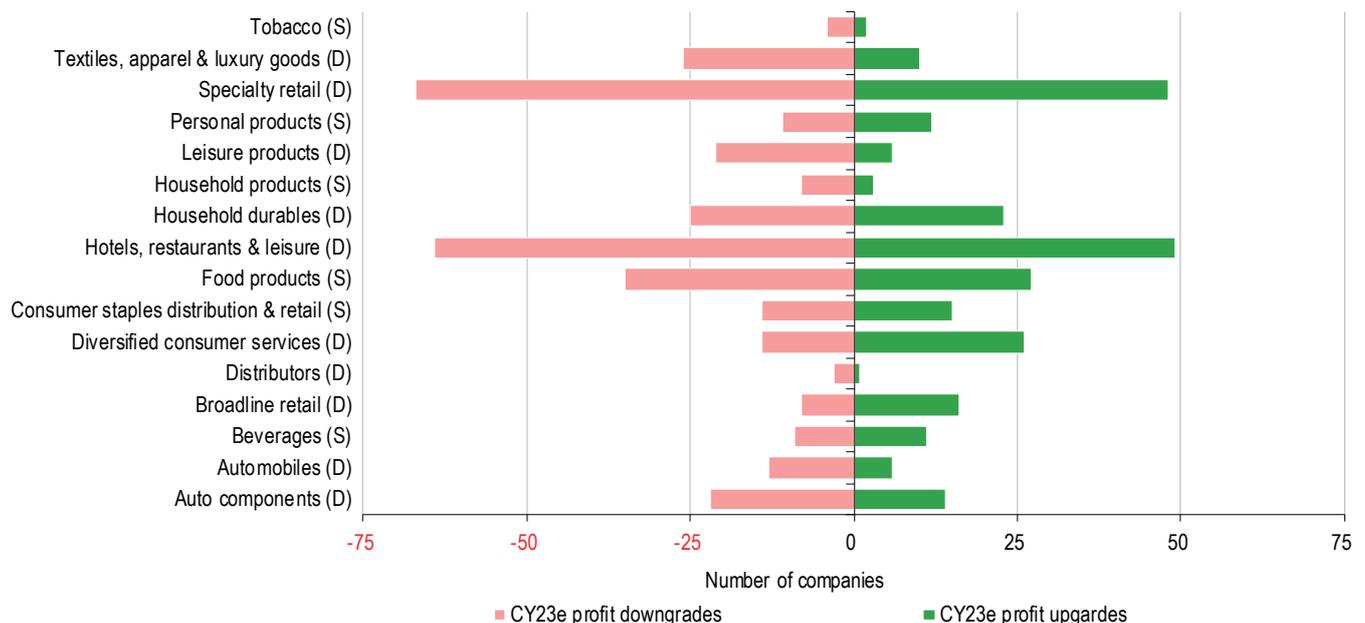
Exhibit 27: North American sector performance versus consensus CY23e profits in CY23



Source: Refinitiv, Edison Investment Research

At the individual company level, Q423 was challenging from an upgrade/downgrade perspective as there were more downgrades (344) than upgrades (269) to consensus CY23 profit estimates (ie more than 55% of changes to consensus estimates were downgrades). The sectors with a positive net balance of upgrades to downgrades in Q423 were beverages; broadline retail; diversified consumer services; consumer staples distribution and retail; and personal products. The sectors that were more affected by downgrades than upgrades were specialty retail; textiles, apparel and luxury goods; leisure products; and hotels, restaurants and leisure.

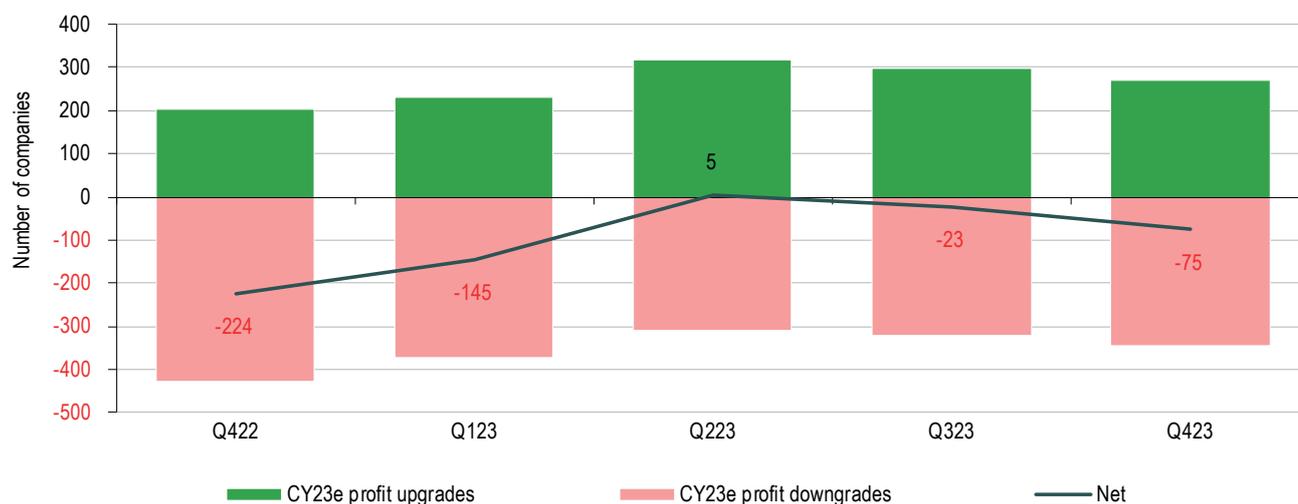
Exhibit 28: Number of companies to receives downgrades/upgrades to CY23e profit in Q423



Source: Refinitiv, Edison Investment Research

Through the year there was a similar trend in the ratio of net upgrades to downgrades to consensus CY23 profit estimates to that seen in the UK and Continental Europe, ie there was an increasing number of downgrades to individual company's CY23 profit estimates relative to upgrades towards the end of the year, after an improving, though still net negative, start to the year.

Exhibit 29: Quarterly progression in downgrades/upgrades to CY23e profit



Source: Refinitiv, Edison Investment Research

Outlook for CY24 and subsector valuations

At 15 February 2024, consensus was forecasting overall year-on-year revenue growth of 5% and profit growth of 13% in CY24 for the North American consumer sectors, which are broadly similar to the expected growth rates for CY23 of 4% and 13%, respectively. These estimates include higher year-on-year revenue and profit growth forecasts for the discretionary sectors of 7% and 17%, versus 3% and 8%, respectively, for the staples sectors.

At the subsector level, year-on-year revenue declines were expected for seven subsectors and profit declines for just three subsectors: motorcycle manufacturers; drug retail; and home improvement retail. Relative to the UK and Europe, fewer (ie 16 of the 39 listed) subsectors were trading at a discount to their long-term average EV/sales multiples on 15 February 2024.

Exhibit 30: North American subsector growth estimates, valuations and profitability

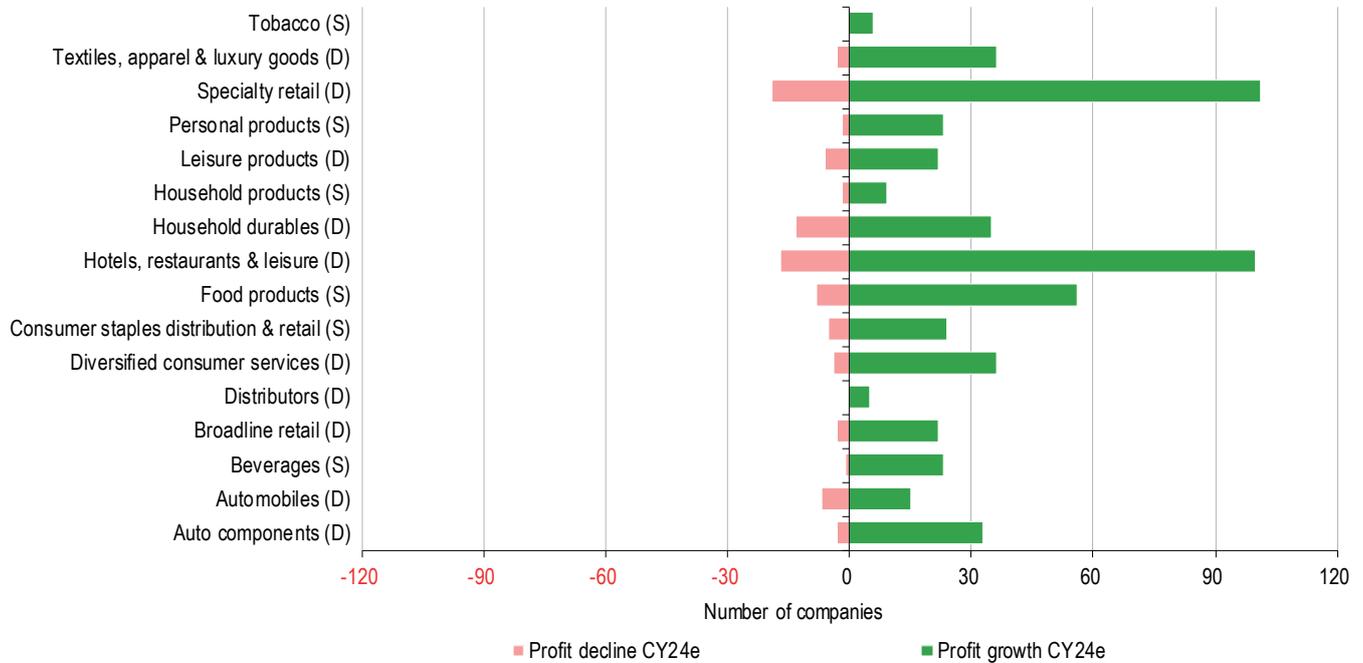
	Sales growth CY24e (%)	Profit growth CY24e (%)	EV/sales CY24 (x)	Premium/ (discount) to long-term average	CY24e profit margin relative to history
Drug retail (S)	4%	(6%)	0.2	(64%)	2%
Textiles (D)	7%	90%	0.3	(60%)	(239%)
Brewers (S)	2%	8%	1.6	(40%)	82%
Housewares & specialties (D)	(5%)	5%	1.0	(33%)	20%
Leisure facilities (D)	7%	19%	2.8	(30%)	78%
Casinos & gaming (D)	9%	26%	2.3	(29%)	93%
Apparel, accessories & luxury goods (D)	2%	11%	1.7	(25%)	62%
Food distributors (S)	4%	11%	0.4	(17%)	42%
Education services (D)	12%	39%	1.9	(14%)	65%
Leisure products (D)	(2%)	5%	1.2	(12%)	49%
Home furnishings (D)	0%	9%	1.0	(7%)	55%
Computer & electronics retail (D)	(1%)	18%	0.4	(7%)	26%
Packaged foods & meats (S)	1%	7%	1.7	(1%)	57%
Motorcycle manufacturers (D)	(1%)	(7%)	2.4	(1%)	30%
Hotels, resorts & cruise lines (D)	10%	25%	3.2	(1%)	95%
Tobacco (S)	4%	5%	4.7	(1%)	100%
Personal products (S)	4%	17%	2.5	6%	93%
Consumer electronics (D)	6%	17%	2.3	6%	37%
Homebuilding (D)	6%	2%	1.3	8%	94%
Broadline retail (D)	11%	31%	2.3	8%	122%
Other specialty retail (D)	2%	6%	1.1	11%	68%
Tyres & rubber (D)	(1%)	41%	0.5	12%	61%
Agricultural products (S)	(5%)	18%	0.4	12%	119%
Soft drinks & non-alcoholic beverages (S)	3%	8%	3.8	13%	77%
Automotive retail (D)	5%	6%	0.9	13%	54%
Distributors (D)	6%	8%	1.2	13%	104%
Auto parts & equipment (D)	5%	15%	0.8	15%	80%
Homefurnishing retail (D)	1%	17%	1.0	15%	72%
Food retail (S)	3%	15%	0.5	18%	119%
Restaurants (D)	8%	12%	3.5	19%	78%
Distillers & vintners (S)	5%	10%	5.5	19%	102%
Household products (S)	3%	8%	3.8	22%	82%
Footwear (D)	6%	14%	2.8	26%	87%
Apparel retail (D)	4%	16%	1.3	27%	68%
Consumer staples merchandise retail (S)	4%	8%	0.9	32%	9%
Specialised consumer services (D)	1%	9%	2.7	36%	115%
Automobile manufacturers (D)	8%	25%	1.9	49%	93%
Household appliances (D)	(11%)	7%	1.1	52%	84%
Home improvement retail (D)	0%	(1%)	2.3	59%	90%

Source: Refinitiv, Edison Investment Research

North American consumer company valuation opportunities

A good year is forecast for the majority of the North American consumer companies.

Exhibit 31: Number of companies with lower/higher CY24e profit than CY23e



Source: Refinitiv, Edison Investment Research. Note: Data at 15 February 2024

In Exhibit 32 we show the 100 North American consumer companies that were trading at the greatest discounts to their long-term average multiples, in descending order of the discount, as at 15 February 2024. We also show year-on-year consensus revenue and profit growth estimates for CY24, and how the expected margins and prospective CY24 multiples compare to their long-term history. We only include companies for which consensus was forecasting positive free cash flow in CY23 and CY24 on a combined basis.

Exhibit 32: North American valuation screen

Company	Ticker	Share price 15 February 2024 (US\$)	Market value 15 February 2024 (US\$m)	Sales growth CY24e	EBIT growth CY24e	EV/sales CY24 (x)	Premium/ (discount) to long- term average EV/sales	CY24e EBIT margin relative	P/E CY24e (x)	P/E CY24e vs long- term average
Golden Entertainment Inc	GDEN	38.64	1,106	(34%)	(79%)	2.2	(92%)	99%	4.1	40%
American Public Education Inc	APEI	11.16	198	2%	(142%)	0.2	(90%)	37%	n/a	(40%)
Stitch Fix Inc	SFIX	3.98	469	(10%)	(35%)	0.2	(89%)	20%	n/a	n/a
Bragg Gaming Group Inc	BRAG	7.15	122	11%	214%	1.0	(86%)	100%	n/a	n/a
Figs Inc	FIGS	6.47	1,094	10%	22%	1.4	(84%)	95%	68.8	n/a
Olaplex Holdings Inc	OLPX	2.17	1,421	5%	(11%)	3.4	(83%)	(15%)	13.6	(79%)
Carnival Corp	CCL	15.22	19,023	14%	63%	0.8	(79%)	96%	737.1	(20%)
Brilliant Earth Group Inc	BRLT	3.13	304	5%	23%	0.5	(78%)	9%	24.5	(97%)
LifeVantage Corp	LFVN	6.49	84	n/a	n/a	0.3	(78%)	93%	n/a	(53%)
Lulu's Fashion Lounge Holdings Inc	LVLU	2.05	83	2%	(87%)	0.2	(77%)	40%	n/a	n/a
Chewy Inc	CHWY	17.46	7,532	5%	(242%)	0.6	(77%)	99%	n/a	(62%)
Under Armour Inc	UA	8.26	3,542	1%	10%	0.6	(74%)	42%	14.8	(71%)
Container Store Group Inc	TCS	1.29	67	(4%)	(24%)	0.3	(74%)	(20%)	n/a	n/a
Nova Cannabis Inc	NOVC	1.36	58	10%	85%	0.3	(73%)	104%	n/a	n/a
United Natural Foods Inc	UNFI	16.41	975	1%	(32%)	0.1	(69%)	(33%)	13.2	224%
Walgreens Boots Alliance Inc	WBA	22.29	19,222	4%	(6%)	0.2	(69%)	(9%)	5.9	(67%)
Chegg Inc	CHGG	9.31	957	(4%)	(17%)	1.9	(68%)	93%	6.6	(39%)
Tesla Inc	TSLA	200.45	638,391	12%	2%	5.6	(68%)	99%	58.2	(70%)
Canada Goose Holdings Inc	GOOS	17.94	1,292	10%	9%	1.6	(68%)	(0%)	18.6	(61%)
Medifast Inc	MED	51.46	561	(23%)	(47%)	0.5	(67%)	21%	5.4	(53%)
Revolve Group Inc	RVLV	17.12	1,235	4%	107%	0.9	(67%)	20%	46.1	(14%)
Village Farms International Inc	VFF	0.84	92	6%	(83%)	0.4	(67%)	55%	n/a	n/a
Norwegian Cruise Line Holdings Ltd	NCLH	16.51	7,024	9%	16%	2.2	(67%)	98%	21.1	(49%)
Warby Parker Inc	WRBY	14.74	1,734	12%	(82%)	2.0	(67%)	172%	128.9	n/a
Latham Group Inc	SWIM	2.90	333	(2%)	96%	1.0	(66%)	94%	56.3	n/a
Petco Health and Wellness Company Inc	WOOF	2.79	855	0%	(14%)	0.4	(66%)	(14%)	23.1	(19%)
Universal Electronics Inc	UEIC	8.89	115	(3%)	(720%)	0.3	(66%)	21%	n/a	27%
RumbleOn Inc	RMBL	7.34	124	10%	1770%	0.5	(65%)	98%	n/a	n/a
CareRx Corp	CRRX	1.55	69	3%	n/a	0.4	(65%)	34%	n/a	n/a
Big Lots Inc	BIG	4.43	129	(6%)	(29%)	0.1	(65%)	12%	n/a	n/a
Solo Brands Inc	DTC	2.81	255	0%	(12%)	0.8	(65%)	49%	4.7	(83%)
Vital Farms Inc	VITL	15.57	648	16%	24%	1.1	(63%)	107%	29.8	(92%)
D2L Inc	DTOL	9.92	194	12%	(185%)	0.4	(62%)	119%	n/a	n/a
Lovesac Co	LOVE	24.61	381	10%	33%	0.4	(61%)	86%	15.1	(50%)
NU Skin Enterprises Inc	NUS	13.82	683	1%	6%	0.5	(59%)	3%	7.8	(63%)
MGM Resorts International	MGM	43.10	14,074	5%	(7%)	1.0	(59%)	82%	16.7	19%
Mondee Holdings Inc	MOND	2.38	204	16%	(123%)	1.2	(59%)	124%	n/a	n/a
PENN Entertainment Inc	PENN	19.39	2,942	6%	(197%)	0.6	(58%)	40%	n/a	n/a
MTY Food Group Inc	MTY	50.25	907	1%	(1%)	1.6	(57%)	2%	11.9	(38%)
Designer Brands Inc	DBI	9.56	544	(1%)	8%	0.3	(57%)	73%	12.0	(78%)
Nerdy Inc	NRDY	3.39	582	23%	(20%)	2.1	(56%)	94%	n/a	n/a
Draftkings Inc	DKNG	44.46	20,729	27%	(80%)	4.4	(56%)	113%	n/a	n/a
Udemy Inc	UDMY	10.88	1,668	11%	(59%)	1.5	(56%)	106%	n/a	n/a
Unifi Inc	UFI	6.02	109	6%	(81%)	0.3	(55%)	38%	n/a	n/a
Dorel Industries Inc	DIII	5.57	136	14%	(188%)	0.2	(55%)	54%	n/a	217%
Honest Company Inc	HNST	3.22	307	5%	(61%)	0.8	(55%)	133%	n/a	n/a
Advance Auto Parts Inc	AAP	64.65	3,847	1%	66%	0.5	(55%)	13%	42.0	(2%)
DoorDash Inc	DASH	126.27	50,282	18%	(83%)	4.6	(55%)	168%	n/a	n/a
Xcel Brands Inc	XELB	1.06	20	(7%)	(66%)	1.1	(55%)	41%	n/a	n/a
Sleep Number Corp	SNBR	11.37	253	(4%)	117%	0.4	(55%)	50%	n/a	(28%)
Coursera Inc	COUR	17.04	2,599	17%	(122%)	2.6	(54%)	122%	n/a	n/a
Kohls Corp	KSS	28.26	3,129	(0%)	3%	0.3	(54%)	34%	11.0	(45%)
Bassett Furniture Industries Inc	BSET	15.47	136	2%	648%	0.2	(54%)	66%	152.4	1%
eBay Inc	EBAY	42.62	22,120	2%	3%	2.1	(54%)	79%	9.9	(74%)
Coupage Inc	CPNG	15.76	28,176	13%	103%	0.9	(54%)	119%	64.5	n/a
Nordstrom Inc	JWN	20.28	3,292	(0%)	2%	0.4	(54%)	51%	10.1	(44%)
Monro Inc	MNRO	32.60	975	1%	4%	0.8	(54%)	3%	21.0	(30%)
Urban Outfitters Inc	URBN	41.91	3,889	5%	12%	0.6	(53%)	41%	13.1	(55%)

Cont.

Exhibit 32: North American valuation screen cont.

Company	Ticker	Share price 15 February 2024 (US\$)	Market value 15 February 2024 (US\$m)	Sales growth CY24e	EBIT growth CY24e	EV/sales CY24 (x)	Premium/ (discount) to long- term average EV/sales	CY24e EBIT margin relative	P/E CY24e (x)	P/E CY24e vs long- term average
Genesco Inc	GCO	32.27	371	0%	41%	0.2	(53%)	19%	27.1	(16%)
Duckhorn Portfolio Inc	NAPA	9.29	1,072	6%	7%	3.0	(51%)	113%	14.1	(64%)
Soho House & Co Inc	SHCO	5.74	1,119	12%	668%	1.3	(51%)	110%	n/a	n/a
Leslie's Inc	LESL	7.90	1,458	1%	7%	1.5	(51%)	7%	26.3	(36%)
Bally's Corp	BALY	11.26	514	9%	(38%)	1.4	(51%)	31%	8.2	n/a
Lindblad Expeditions Holdings Inc	LIND	9.28	495	9%	111%	1.5	(51%)	93%	n/a	n/a
Movado Group Inc	MOV	29.18	455	2%	6%	0.4	(50%)	66%	9.6	(29%)
Accel Entertainment Inc	ACEL	10.47	888	2%	(3%)	1.0	(49%)	97%	11.4	(51%)
Carvana Co	CVNA	57.62	11,504	4%	(127%)	1.4	(48%)	103%	58.5	n/a
National Vision Holdings Inc	EYE	20.92	1,637	(7%)	(1%)	1.0	(47%)	3%	36.7	(92%)
Cedar Fair LP	FUN	41.79	2,132	2%	11%	2.3	(46%)	98%	14.1	(58%)
BJ's Restaurants Inc	BJRI	35.47	824	4%	89%	0.6	(46%)	72%	45.3	(35%)
Hain Celestial Group Inc	HAIN	9.78	879	2%	4%	0.9	(46%)	2%	25.2	(63%)
Xponential Fitness Inc	XPOF	10.75	510	12%	93%	2.3	(45%)	185%	21.8	(75%)
Traeger Inc	COOK	2.25	283	1%	11%	1.1	(45%)	103%	n/a	n/a
USANA Health Sciences Inc	USNA	49.67	950	(3%)	n/a	0.7	(45%)	(100%)	16.8	n/a
Hibbett Inc	HIBB	74.25	874	4%	3%	0.5	(45%)	37%	8.3	(48%)
Ascend Wellness Holdings Inc	AAWHu	1.62	335	11%	(1480%)	1.5	(44%)	81%	n/a	n/a
Wayfair Inc	W	52.22	6,159	2%	(238%)	0.7	(44%)	90%	n/a	(45%)
Citi Trends Inc	CTRN	28.45	243	(1%)	(48%)	0.2	(44%)	7%	n/a	n/a
Macy's Inc	M	19.60	5,372	(0%)	(11%)	0.4	(44%)	63%	6.1	(42%)
Sally Beauty Holdings Inc	SBH	13.80	1,447	(0%)	(1%)	0.6	(44%)	18%	7.1	(52%)
Spectrum Brands Holdings Inc	SPB	85.93	2,601	(0%)	15%	0.8	(43%)	46%	35.6	(26%)
VF Corp	VFC	17.05	6,629	(2%)	(0%)	1.2	(43%)	2%	12.9	(52%)
Clarus Corp	CLAR	6.16	235	1%	72%	0.9	(43%)	77%	11.5	(95%)
Calavo Growers Inc	CVGW	28.79	512	8%	43%	0.5	(42%)	35%	38.1	(38%)
Airbnb Inc	ABNB	157.69	102,036	12%	14%	8.4	(42%)	100%	18.3	(16%)
Spin Master Corp	TOY	34.90	2,692	26%	27%	0.8	(42%)	95%	12.9	(52%)
Grocery Outlet Holding Corp	GO	26.58	2,639	9%	5%	0.6	(42%)	85%	24.8	(71%)
Neighbourly Pharmacy Inc	NBLY	18.40	614	15%	n/a	1.1	(41%)	(100%)	44.1	n/a
Restaurant Brands International Inc	QSR	76.02	23,753	8%	9%	4.7	(41%)	6%	16.1	(68%)
Sabre Corp	SABR	3.42	1,298	8%	118%	1.7	(40%)	99%	n/a	(9%)
ETSY Inc	ETSY	77.76	9,311	5%	44%	3.7	(40%)	59%	28.0	(50%)
Fox Factory Holding Corp	FOXF	68.30	2,895	20%	23%	1.7	(40%)	107%	15.9	(44%)
Cracker Barrel Old Country Store Inc	CBRL	73.23	1,625	1%	(1%)	0.6	(39%)	6%	14.5	(18%)
Cheesecake Factory Inc	CAKE	34.91	1,772	7%	17%	0.6	(39%)	71%	13.8	(48%)
Genther Inc	THRM	50.54	1,658	7%	38%	1.1	(39%)	60%	22.3	(55%)
Yeti Holdings Inc	YETI	41.53	3,607	7%	8%	1.9	(38%)	71%	17.8	(53%)
Laureate Education Inc	LAUR	13.01	2,047	7%	10%	1.3	(38%)	103%	17.8	(48%)
SpartanNash Co	SPTN	20.61	713	1%	10%	0.1	(38%)	41%	9.3	(80%)
Molson Coors Beverage Co	TAP	62.07	12,490	1%	5%	1.5	(38%)	94%	10.7	(40%)
B&G Foods Inc	BGS	10.06	791	(3%)	(1%)	1.5	(37%)	18%	10.9	(53%)

Source: Refinitiv, Edison Investment Research.

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London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom

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enquiries@edisongroup.com



+44 (0)20 3077 5759
www.edisongroup.com

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