

A person is seen from behind, holding two shopping bags. One is a plain brown paper bag, and the other is a red bag with a white floral pattern. The background is a blurred, brightly lit shopping mall with various storefronts and people walking.

UNION III
SECURITIES

How US Retailers are
fighting back

March 12, 2019

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US Retailers

Best Buy - Daily



Target - Daily



- ❑ Q4 earnings showed that some retailers have found ways to fight back e-commerce pressure and posted strong holiday sales. **Walmart** and **Costco** remain the best examples but some smaller companies have also managed to find a hedge.
- ❑ **Best Buy**, a consumer electronics retailer, has a services-focused strategy that aims to create deeper customer engagement. It offers advice and installation and invests heavily in smart home technology. It recently acquired GreatCall to offer smart home technology as a monitoring service for seniors. They even made a pact with Amazon to showcase its *Fire TV* streaming capabilities and *Alexa* voice assistant gizmo. Best Buy also managed to benefit for the failure of *Toy 'R' Us* by expanding its toys offering.
- ❑ **Target** is the US second largest discount chain behind Walmart. To maintain sales momentum, it remodelled hundreds of stores, expanded its digital and supply-chain platforms and added some new private brands such as lingerie brand to capitalize on Victoria's Secret's struggles. Online sales grew 31% YoY, using stores as a shipping hub to speed up deliveries. The company has also been training store workers to develop expertise in categories like beauty and food.

US Retailers



- ❑ **Foot Locker**, US largest sport apparel retailer, chose to tighten its relationship with Nike with a focus on premium products. Through physical and digital presence, the company brings a higher degree of personalization and on-demand services with a focus on “youth culture”. Q4 earnings showed falling store traffic but a strong rise in average selling prices. Foot Locker is also investing in modern distribution centers to improve fulfilment times.
- ❑ Those companies are in a transition and investment phase and are faced with a strong execution risk. Still they are among the likely winners in the reshuffle of the US retail industry.
- ❑ **Risk Level:** Recovery play, highly speculative.

US Retailers

DESCRIPTION

VALUATION

Name	Mkt Cap (\$bn)	Revenue (\$bn)	Country Name	Currency	Est. PE - 12M Fwd	Est. PE - 24M Fwd	Est. EV/EBITDA	Est. Price/Sales	Est. EV/Sales
Walmart Inc	286.1	514.4	UNITED STATES	USD	20.5	19.6	10.5	0.5	0.6
Costco Wholesale Corp	101.1	141.6	UNITED STATES	USD	27.8	25.8	15.0	0.6	0.6
Target Corp	39.5	75.4	UNITED STATES	USD	12.9	12.2	7.4	0.5	0.7
Best Buy Co Inc	18.5	42.9	UNITED STATES	USD	12.1	11.5	na	0.4	0.4
Foot Locker Inc	6.8	7.9	UNITED STATES	USD	11.3	10.5	6.4	0.8	0.7

VALUE CREATION

Name	Est. RoE	Sales Growth (3y avg.)	EPS Growth (3y avg.)	LT Exp. EPS CAGR	Asset Turnover	FCF Margin (3y avg.)	FCF Yield	Est. Gross Margin	Est. EBIT Margin	Est. Net Margin
Walmart Inc	18.1%	2.2%	-20%	4%	243%	3.8%	6.05%	24.2%	4.1%	2.6%
Costco Wholesale Corp	23.6%	6.9%	10%	10%	361%	1.9%	3.04%	11.2%	3.2%	2.3%
Target Corp	25.4%	0.8%	2%	6%	185%	5.0%	6.16%	28.7%	5.6%	3.8%
Best Buy Co Inc	43.5%	2.8%	31%	11%	330%	4.1%	8.48%	23.2%	4.6%	3.4%
Foot Locker Inc	22.5%	2.3%	27%	7%	204%	7.3%	7.18%	32.2%	9.3%	6.8%

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