EUROPEAN DEPARTMENT STORES UPDATE: REVIEWING TRENDS AND PERFORMANCE

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- This report provides an update on major department-store retailers and sector trends in the UK, Germany and France. The overarching trend is that premium names, such as John Lewis and House of Fraser, have continued to outperform their midmarket peers.
- We have identified four other recent themes in the European sector:

1) Some major chains have been inching toward greater internationalization: Hudson's Bay Company (HBC) acquired Germany's Galeria Kaufhof, bringing a major US player to Europe for the first time; Sanpower acquired the UK's House of Fraser, promising a wave of store openings in China (although this has not yet occurred); and France's Galeries Lafayette continues to expand in China.

2) In the UK, Marks & Spencer and Debenhams are both trying to wean shoppers off discounts by cutting the number of promotions they run.

3) At the same time, we are seeing the first appearance of off-price formats from major department-store retailers in Europe. HBC is bringing its Saks Off 5th concept to Germany and the Netherlands, while Galeries Lafayette is rolling out its Outlet stores in France.

4) Major retailers, including House of Fraser and Galeries Lafayette, are bolstering their private-label offerings. At the same time, Debenhams is bringing in more third-party brands, following a sustained period of growing its private-label sales.

Table of Contents

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INTRODUCTION: OUR LATEST TAKE ON EUROPE'S BIGGEST DEPARTMENT STORES

In this report, we wrap up the recent performance of major European department-store retailers, assess developments in the sector over the past year, and look at some prominent themes and issues in the sector. This report focuses on department stores in the UK, Germany and France.

The UK and German sectors are both seeing a flurry of activity.

Source: Shutterstock

The UK and German sectors are both seeing a flurry of activity. In the UK, Marks & Spencer (M&S) has appointed a new CEO, and a new CEO is due imminently at Debenhams, even as BHS has collapsed and is closing down as we write. In Germany, HBC, the new owner of Galeria Kaufhof, is injecting fresh ideas into the company. We focus our discussion on the following major retailers and their respective developments:

- M&S (UK): The British retail giant has a new CEO with a new plan, but the company has recently reported a slump in sales at its Clothing and Home division.
- Debenhams (UK): This chain has announced that its next CEO will be hired from Amazon and that it has made adjustments to its strategy.
- BHS (UK): This company is facing imminent closure at the time of writing, leaving us to question which of its rivals will gain from its failure.
- Galeria Kaufhof (Germany): This retailer has announced new plans to improve its offering and launch an off-price chain under its new owner, HBC.

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- Galeries Lafayette and Printemps (France): These upscale, privately owned department stores are likely to be hit by the effects of terrorist attacks on tourism in France.

Other major retailers noted in this report include the privately owned House of Fraser (UK), John Lewis (UK) and Karstadt (Germany).

This report is an update to our June 2015 deep dive *Global Department Store Retailing*. That report can be found at bit.ly/FungDepartmentStores

THE SECTOR

Performance Summary: Latest Comps

Data from the UK show a clear correlation between performance and positioning: premium names have continued to outperform their midmarket peers.

Compared to other European markets, the UK has a substantial and varied department-store sector, with a number of public companies—which means more data points are available and country trends are easier to spot. Data from the UK show a clear correlation between performance and positioning: premium names, such as John Lewis and House of Fraser, have continued to outperform their midmarket peers, such as M&S and Debenhams. The lower end of the market has performed worse still, with BHS closing its final stores as we write.

There is also a general correlation between store numbers and performance: the more ubiquitous names (i.e., the more middle-ground retailers that have stores in many towns) are turning in lower growth.

Among the selected retailers discussed in this report, BHS and Karstadt are (or were, in the case of the now-defunct BHS) privately owned, so comparable sales growth data are not available for them. Although John Lewis and House of Fraser are also privately owned, they publish results twice a year.

Figure 1. UK and Germany: Selected Department Stores' Comparable Sales Growth and Store Numbers

Positioning	Retailer	Comps	Period	Store Numbers (2015)
Upper midmarket	House of Fraser	5.3%	Six weeks ended Jan. 2, 2016*	54
Upper midmarket	John Lewis	3.1%	FY16	44
Midmarket	Debenhams	(0.2)%	3Q16	161
Midmarket	M&S	(4.3)%	1Q17	340**
Midmarket	Galeria Kaufhof*** (Germany)	(0.9)%	2Q16	102
Lower midmarket	BHS	Closed	2016	158

**House of Fraser is privately owned and its Christmas trading statement is its latest public release.*
***General merchandise stores only, excluding Simply Food stores*
****Includes Galeria Inno in Belgium and Sportarena sports stores*
Source: Company reports/Euromonitor International

Europe vs. the US: Similar Problems?

In Europe, as in the US, retailers at the very middle of the market are facing challenges: department stores that target a very broad demographic and offer little in-store differentiation are losing share to more fashionable specialists and to price-competitive Internet-only retailers. BHS, Karstadt and M&S appear to be those most challenged in the three European countries we examined, but Galeria Kaufhof and Debenhams have also turned in sporadically underwhelming growth in the recent past.

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Nevertheless, we think the major European sectors are more robust than the US department-store sector is. We note these key differences:

The European sector faces fewer overspacing problems. On a per-capita basis, the US has more department stores than the UK, Germany or France.

Source: Shutterstock

- In the UK, the core traditional department-store sector retains a more premium positioning than it does in the US. Even middle-ground Debenhams has stores that incorporate premium elements, such as well-maintained beauty halls that feature a heavy presence of prestige brands. By contrast, standards at US stores tend to be more underwhelming or more functional, leaving these retailers more vulnerable to price-led pure plays and more fashionable specialists stealing share.
- In France, the department-store sector is more upscale still, and is very firmly focused on Paris. This reflects, in part, the importance of tourists to French retailers such as Galeries Lafayette and Printemps.
- European department-store retailers have so far not pushed into the off-price segment, as their peers in the US have done. In Europe, T.K. Maxx largely has the off-price segment to itself. Consequently, European department-store retailers are not cannibalizing any sales from their own full-price stores. That said, Galeria Kaufhof owner HBC and Galeries Lafayette have both recently announced moves into off-price formats.
- On a similar theme, the US sector, overall, focuses more on price promotions than the European sector does, with very regular discounting and a couponing culture that the UK does not have. Both Debenhams and M&S moved toward slightly heavier promotional stances in previous years, but Debenhams has been cutting back on the number of promotions it offers since 2014 and, in 2016, M&S announced it would take similar steps.
- The European sector faces fewer overspacing problems. On a per-capita basis, the US has more department stores than the UK, Germany or France, as we show in the table below. The UK numbers are pushed up substantially by M&S, and less so by BHS, but neither is a conventional

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multibrand department store—and if we exclude them, the differences between the US and the UK become more apparent.

Figure 2. Number of Department Stores per Million of Population

	2014	2015
US	13.9	13.8
UK	12.1	11.6
UK ex M&S and BHS	*3.9*	*4.0*
Germany	2.5	2.4
France	1.3	1.2

Based on totals of major department-store chains
Source: Euromonitor International/US Census Bureau/Office for National Statistics (ONS)/Eurostat/Fung Global Retail & Technology

Our Top Four Trends

We have identified four major trends that are either emerging or have already taken hold in the European department store sector:

1. Greater Internationalization

A long-standing feature of the European sector has been its division along national lines: there has traditionally been very little of the kind of internationalization that we see among apparel specialists (think H&M and Zara, for instance). However, major chains have recently inched toward greater internationalization:

- HBC acquired Galeria Kaufhof, bringing a major US player to Europe for the first time. The company subsequently announced plans to open a new chain of stores in the Netherlands—the first new department-store chain in Europe for quite some time—and to bring its Saks Off 5th chain to Europe.
- The acquisition of House of Fraser by Chinese conglomerate Sanpower promised a tranche of new "Oriental Fraser" stores in China—although, so far, Sanpower has reportedly been revamping House of Fraser's existing stores in China rather than growing its portfolio in the country.
- Galeries Lafayette is maintaining its strategy of international expansion. In a December 2015 interview with The Business of Fashion, the company's CEO said he was looking to open two or three more stores in China.

At the same time, media reports have speculated that M&S's new CEO, Steve Rowe, will announce the closure of some international stores when the company announces its half-year results in November.

In the UK, midmarket stores are trying to wean shoppers off discounts.

For premium-positioned stores, such as the major French chains, this kind of internationalization offers the opportunity to tap increasingly important demographics (notably, Chinese consumers) at the source. And for a North American firm such as HBC, which is faced with a saturated home market, Europe appears to offer pockets of opportunity via secondary countries and the off-price channel.

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2. Less Discounting…

In the UK, midmarket stores are trying to wean shoppers off discounts by cutting the number of promotions they run:

- Debenhams has been pulling back on discounting since 2014, and in its first-half 2016 results, it announced a 5.1% improvement in its full-price sales mix and a 90-basis-point improvement to gross margin due to fewer markdowns. Its initial move was to trim the number of days it ran promotions; in the first half of 2016, this metric stabilized, and the retailer instead culled the range of products it featured in promotional events.
- M&S has followed in Debenhams's footsteps, with its new CEO promising a "significant" reduction in promotions and a move to lower opening price points. This came in response to customers telling the company that it had been "inconsistent on price and value," CEO Steve Rowe said in May 2016.

We are seeing the first appearance of off-price formats from major department-store retailers in Europe.

Elsewhere, HBC's declared strategy for Galeria Kaufhof hints that promotions are not key to its plan for reviving the chain. The company has instead pointed to "deep brand relationships," enhanced product ranges and a better digital proposition to drive the top line.

3. …but New Ventures into Off-Price

At the same time that major chains are pulling back on discounting, we are seeing the first appearance of off-price formats from major department-store retailers in Europe:

- HBC is bringing Saks Off 5th to Germany and the Netherlands. The group has announced the five initial locations for the off-price banner, with the inaugural, and flagship, store scheduled to open in Düsseldorf in summer 2017. Some stores will be converted from the group's Sportarena banner, and HBC has said it plans to open up to 40 Saks Off 5th stores in total.
- In France, Galeries Lafayette is rolling out its Galeries Lafayette Outlet store concept. In October 2015, the company announced the opening of two Outlet stores (which would join its first and only Outlet store, opened in Paris in September 2014). A further two Outlet openings were announced in June 2016. All are in provincial cities or outlet centers.

We think the off-price channel offers department stores the potential to broaden their appeal. In France, it can draw in shoppers who might think Galeries Lafayette and Printemps look too pricey. In Germany, the format can bring in younger, more brand-conscious shoppers who may look for brands online or at T.K. Maxx but who would not typically go to a midmarket department store.

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We see a limit on the number of European operators that will be willing or able to introduce off-price concepts.

Source: Shutterstock

However, we also see risks and limitations. The most obvious risk is that of cannibalization. In markets where shoppers are already well served by department stores, it is hard to escape the conclusion that some off-price sales will come at the expense of full-price department stores owned by the same retailer.

We also see a limit on the number of European operators that will be willing or able to introduce off-price concepts. In the UK, for instance, M&S would not be able to successfully launch an off-price banner, as it is 100% private label, and off-price is built on brands. Meanwhile, there appears to be no need (and some risk) for House of Fraser to launch an off-price concept. The company's department stores are outperforming, and expanding into off-price would risk diluting House of Fraser's premium positioning.

There is probably more scope for Debenhams in the UK and Karstadt in Germany to adopt off-price formats to revive performance, but we think it is unlikely that either of them will do so. Debenhams has long moved away from brands toward private label in apparel. For long-struggling Karstadt, we think the investment required to either acquire new stores or convert existing stores to this format would be a stumbling block.

4. Private-Label Moves

Some retailers are shifting in order to grow their share of revenues generated by private-label ranges:

- House of Fraser has reiterated its intention to develop its own brand proposition in apparel, sales of which were up 4.5% over Christmas 2015. In fiscal year 2016, the company launched one new brand of its own and noted that its "established House Brands [own brands] were further developed and expanded by increasing the breadth and depth of the product offer."
- Even high-end Galeries Lafayette is pushing for more private-label sales. In the first half of 2015, the company's own brand sales contributed 6% of revenues, and management reportedly hopes to push this number up with a revamped own brand.

At the same time, Debenhams is bringing in new product and service brands as part of its "space optimization" program to drive up profit densities. This effectively marks a reversal from its long-standing strategy of growing its

own brand's share of sales and phasing out third-party brands in apparel. Own-bought third-party brands (which excludes concessions) contributed 31% of total sales in fiscal year 2015, down from 32% in fiscal year 2014. Debenhams's move is one element of its strategy to revive top-line performance by providing a "compelling" mix of products and brands.

THE RETAILERS

While some analysts have argued that M&S has too many stores, we think a bigger issue is that many of its general merchandise stores are too large.

In this section, we discuss recent developments at those retailers that have seen the most notable changes: M&S, Debenhams, BHS, Galeria Kaufhof (including its sister chain, Galeria Inno), Galeries Lafayette and Printemps.

M&S: A New CEO with New Plans

M&S is a borderline department store. It is differentiated from most other British department stores by its product mix: its revenue breakdown is approximately 38% clothing, 4% home and 58% food. It is differentiated also by its brand mix, as it sells virtually 100% own-branded items, stocking only a few third-party lines in beauty and grocery.

Clothing and Home Sales Disappoint

For some time, analysts and investors have been hoping for an improvement to comps in M&S's Clothing and Home division. The division's sales have fallen in 19 of the 20 most recent quarters. Comps nosedived to (8.9)% in its most recent quarter—albeit against a backdrop of an exceptionally weak UK clothing sector. Moreover, the Food division has stopped providing top-line support, having weakened in the last two fiscal years.

Source: Shutterstock

So, what are M&S's challenges in its clothing category?

- It is a generalist at the heart of the midmarket in an age of near-unlimited, ever-more-niche options.
- Its large, mature UK store estate leaves it with less scope for growth than rivals with more limited footprints.

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- While some analysts have argued that M&S has too many stores, we think a bigger issue is that many of its general merchandise stores are too large, and they risk pushing the retailer to stock a very large number of lines whether that is right for the customer or not. Indeed, in its recent strategic review, M&S noted that its "*overwhelming choice*" can frustrate customers and that it is now culling its clothing lines by 10%.

New CEO Courts "Mrs. M&S"

The average shopper is a woman in her 50s who shops at M&S about 18 times per year.

In the absence of sales growth, former CEO Marc Bolland rewarded investors by bolstering margins through more direct sourcing of clothing and home products. But this strategy has made no difference to M&S's appeal to shoppers and, once the margin gains are fully realized, the retailer will need to find top-line growth to drive further profit increases.

Bolland's successor, Steve Rowe, is trying to recover profitable growth in clothing revenues, with a new strategy that focuses on:

- Everyday lower prices, and less discounting.
- "Wearable, contemporary style" and "everyday essentials" instead of chasing fashions.
- A renewed emphasis on garment quality, manifested in "fabric, fit and finish."

Rowe identified "Mrs. M&S" as the company's core customer, which the retailer aims to "cherish and celebrate." This average shopper is a woman in her 50s who shops at M&S about 18 times per year, he said. We think the strategy of satisfying the core customer is sound, but that Rowe's profile of "Mrs. M&S" shows how far the average age of his customer has risen as younger consumers have turned elsewhere.

While we do not think M&S should pursue very young shoppers, it must establish entry-level ranges to draw in 30-something consumers and so replenish its customer base. M&S cannot assume that its current popularity with baby boomers will naturally result in future generations of older shoppers flocking to its stores.

Recent Performance

We observe a correlation between the performance of M&S's Clothing and Home segment and quarterly ONS data for Clothing Specialists.

We observe a correlation between the performance of M&S's Clothing and Home segment and quarterly ONS data for the Clothing Specialists (Large Businesses) sector. The growth rates are typically different, but follow the same pattern. Sequential changes in the ONS monthly data may therefore be a leading indicator of sequential changes in M&S Clothing and Home comps. Unlike M&S, the ONS reports sector sales monthly as well as quarterly—potentially giving us an early indication of M&S's quarterly figures.

The latest data from the ONS showed the Clothing Specialists (Large Businesses) sector swinging from a decline of 5.9% in June to 2.5% growth in July, which implies M&S has seen a recent improvement in its Clothing and Home division.

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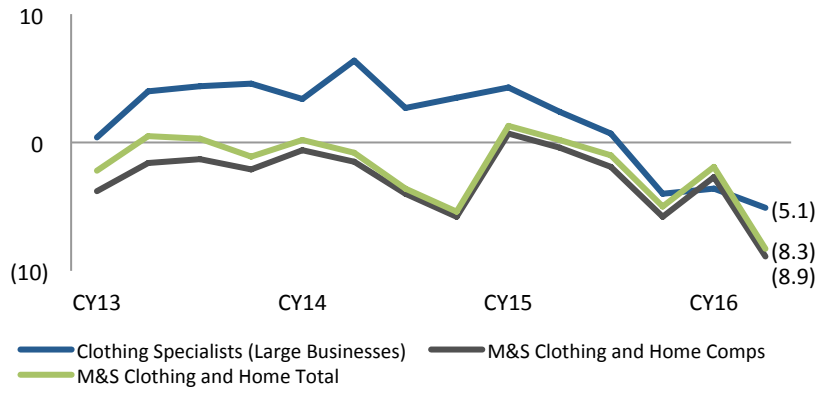
Figure 3. Clothing Specialists' (Large Businesses') Sector Sales vs. M&S's Clothing and Home Segment Sales: YoY % Change, by Quarter



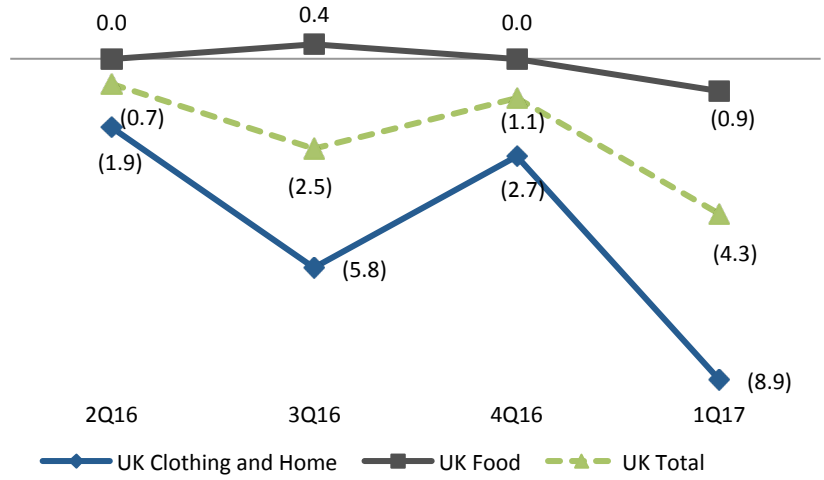
Closest comparable quarters were used. The latest ONS quarterly data are for 2Q16.
Source: ONS/company reports/Fung Global Retail & Technology

M&S looks well positioned to mop up market share following the closure of BHS in August 2016.

In the near term, M&S looks well positioned to mop up market share following the closure of BHS in August 2016: as we show in our discussion of BHS, below, M&S was BHS's closest rival in terms of customer overlap.

Like virtually all other UK retailers, M&S does not report profit data quarterly; the key metric reported each quarter is comparable sales growth.

Figure 4. M&S: Comparable Sales Growth, by UK Segment



Source: Company reports

Figure 5. M&S: Key Developments in the Last Year

May 2016	CEO Steve Rowe announces new apparel strategy of lower prices, improved quality and less focus on chasing fashions
May 2016	Sky News reports that Mark and Neal Lindsey, who helped overhaul M&S's sourcing in general merchandise, will leave the company in 2017
April 2016	Steve Rowe takes over from Marc Bolland as CEO

Source: Company reports

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Debenhams: New CEO to Arrive from Amazon

Refreshed Strategy

Outgoing CEO Michael Sharp devised a strategy to rein in discounting, bring new names into the company's Designers at Debenhams range, and enhance the in-store experience.

Although Debenhams's top-line performance has remained well ahead of M&S's, it has still disappointed. Debenhams could have been making hay while M&S struggled. Instead, a reliance on discounting, an offering that was looking somewhat tired and a portfolio of stores in need of sprucing up left it turning in lackluster growth, and gifted Next the opportunity to steal share in the midmarket.

Spurred by this disappointing performance, outgoing CEO Michael Sharp devised a strategy to rein in discounting, bring new names into the company's Designers at Debenhams range, and enhance the in-store experience:

- In fiscal year 2015, Debenhams reduced the number of days it was on promotion by 17 and, in the first half of 2016, it noted a 5.1% improvement in its full-price sales mix. In the half, the company also noted a 90-basis-point improvement in gross margin due to fewer markdowns, helped by a planned reduction in inventory.
- Debenhams has introduced new names, such as Nine by Savannah Miller, into its Designers at Debenhams apparel range, and we would urge it to continue renewing this core offering.
- The retailer has effectively reversed a long-standing strategy of increasing the proportion of sales from its own brands by bringing in more third-party brands as part of its space-optimization program. This will also include introducing more food-service offerings into its stores to help drive up dwell time.

The outperformance by premium rivals suggests that shoppers remain enthusiastic about those department stores that offer a premium experience, so Debenhams's effort to improve the in-store experience also looks to be a wise move.

The appointment of Sergio Bucher, from Amazon Apparel, as CEO designate was a left-field announcement that took most analysts by surprise.

Source: Shutterstock

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Its core customer is a 41-year-old woman. This is notably younger than the "Mrs. M&S" its biggest rival, M&S, is seeking to appeal to.

New CEO

The appointment of Sergio Bucher, from Amazon Apparel, as CEO designate was a left-field announcement that took most analysts by surprise. Some commentators have stated that they expect Bucher to "digitally equip" Debenhams. However, with online sales having grown by double digits in the first half, and with mobile accounting for almost 50% of online orders, we do not see this as an urgent priority. We hope, instead, that Bucher will bring fresh thinking to the broader question of what a midmarket department store's physical space should look like in the digital age.

Chairman Sir Ian Cheshire said that Bucher's priority would be to build on Debenhams's appeal to its core customer, a 41-year-old woman. This is notably younger than the "Mrs. M&S" its biggest rival, M&S, is seeking to appeal to.

Recent Performance

Debenhams does not consistently report comparable sales growth by quarter. For the 19 weeks ended January 9, 2016 (effectively the first quarter of 2016), group comps were up 1.9%, or up 3.5% in constant currency. In the first half overall, group comps were up 1.1%, or up 2.4% in constant currency. The company did not split out second-quarter results, but the data suggest a sequential weakening across the first half.

The company said that stock levels were tightly managed in the half, and that total stock value fell by 1.9%, including a 4.3% fall in like-for-like stock.

For the subsequent 15 weeks (roughly equating to 3Q), group comps were down 0.2%, or down 1.6% in constant currency.

Figure 6. Debenhams: Key Developments in the Last Year

May 2016	Company announces appointment of Sergio Bucher, currently VP of Amazon Fashion Europe, as CEO, effective October 2016
January 2016	Sir Ian Cheshire, formerly CEO of Kingfisher, is appointed Chairman
October 2015	CEO Michael Sharp announces he will step down in 2016

Source: Company reports

BHS: Who Will Gain from Its Implosion?

We think BHS epitomizes the difficulties of trading in the lower-to-middle midmarket, and that its struggles are perhaps the most similar to those of major US chains of any UK department store.

What Went Wrong, and Who Will Benefit from the Demise of BHS?

BHS's demise was, in the short term, apparently the result of an acquisition by an inexperienced, overambitious and underfunded syndicate. Yet the chain had been in long-term decline, as measured by the top line, and had not been profitable at the bottom line since fiscal 2008, according to accounts filed by the privately owned company.

We think BHS epitomizes the difficulties of trading in the lower-to-middle midmarket, and that its struggles are perhaps the most similar to those of major US chains of any UK department store. Underwhelming stores, middle-ground product and an addiction to discounting were among BHS's commonalities with a number of US retailers. At BHS, this resulted in an aging customer base and seeming irrelevance among an increasing number of British shoppers.

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Source: Shutterstock

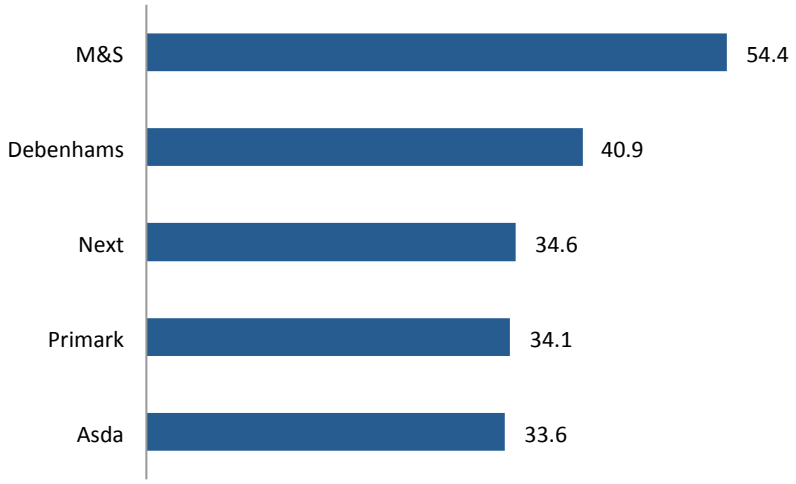
Consumer-survey data suggest much of BHS's share will go to more sharply positioned rivals such as Next and Primark.

In fiscal year 2014 (the latest available), BHS reported revenue of £668 million, down 1.1% year over year. This is equivalent to approximately 6.3% of M&S's fiscal year 2016 revenue of £10.56 billion, or 28.8% of Debenhams's fiscal year 2015 revenue of £2.32 billion.

The shakeout of BHS removes some capacity from the UK sector, and consumer-survey data suggest much of its share will go to more sharply positioned rivals such as Next and Primark. According to 2016 data from Verdict Retail, BHS customers' most-used alternative stores were M&S, Debenhams and Next as well as the more price-competitive Primark and Asda chains.

BHS's closure should provide a welcome fillip to M&S and Debenhams, but it does not resolve the challenges in the midmarket—it merely throws them into the spotlight.

Figure 7. Top Five Retailers Where BHS Clothing Shoppers Say They Also Shop for Clothing, March 2016 (%)



Source: Verdict Retail

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Figure 8. BHS: Key Developments in the Last 18 Months

July 2016	Administrators confirm all stores to close by August 20
June 2016	Administrators announce that the company is to be wound down
April 2016	BHS is put into administration, leading to an investigation by Members of Parliament into the sale and operation of the company
March 2016	Creditors back a company voluntary arrangement designed to reduce costs
March 2015	Sir Philip Green's Arcadia Group sells BHS to Retail Acquisitions, a consortium

Source: Company reports

HBS is injecting new ideas into an otherwise tired-looking German department-store sector.

Galeria Kaufhof/Galeria Inno: New Owner Breathing New Life into Germany's Sector

New Owners, New Plans

HBC closed its acquisition of Galeria Kaufhof in Germany and its sister, Galleria Inno, in Belgium in September 2015, and it is injecting new ideas into an otherwise tired-looking German department-store sector. There look to be three prongs to the new owner's European strategy:

- First, HBC will bring its Saks Off 5th off-price format to Germany and the Netherlands, providing the first major brick-and-mortar competition to T.K. Maxx in Europe. HBC will be only the second department-store operator in Europe with an off-price concept, following in the footsteps of Galeries Lafayette.
- Second, HBC will invest in improving the proposition in the core Galeria chains in order to drive sales growth. This includes attracting a wider range of "world-class" brands; improving the offerings in beauty, shoes and handbags; digital improvements, including enhanced assortments online and expanded fulfillment capabilities; and adding extra sales areas to stores by converting "unproductive" back-office space to shop-floor space.
- Third, the company will add a third country to its European operations, with the opening of up to 20 stores in the Netherlands over the next two years. It has already announced lease agreements for 11 Dutch stores.

Recent Performance

Galeria Kaufhof's top-line performance has been patchy: the charted data below initially suggest a downward trend. However, under the former ownership of Metro Group, the latest reported comp figures were a more disappointing (1.5)% in the period from October 2014 through June 2015.

In its most recent quarter, ended July 30, HBC noted the "increasingly tumultuous geo-political environment" in which Galeria Kaufhof operates.

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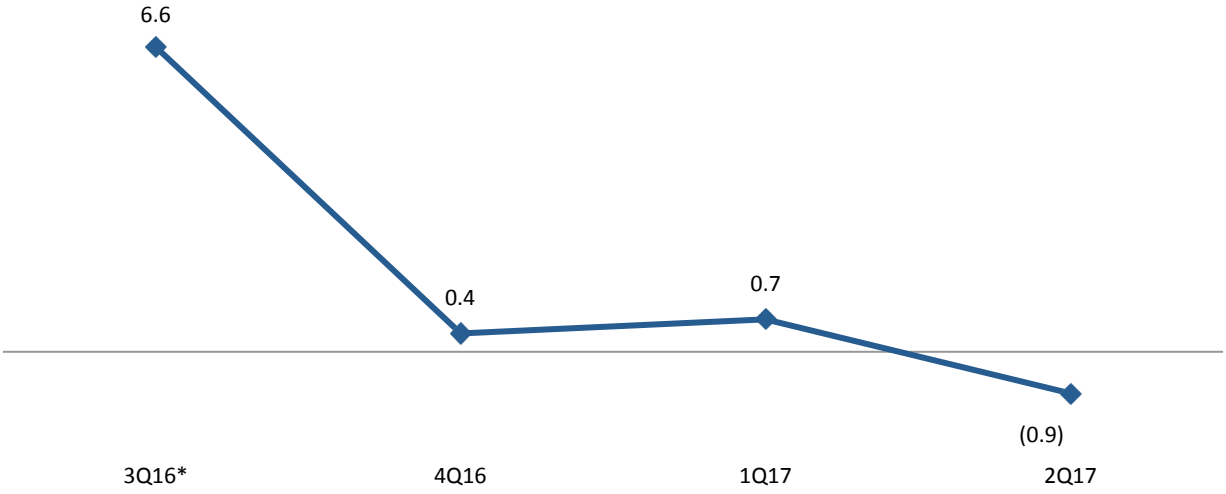
Source: Shutterstock

Figure 9. HBC Europe: Comparable Sales, YoY % Change



Data include Galeria Kaufhof, Galeria Inno and Sportsarena sports stores.
**One-month period, following the acquisition by HBC*
Source: Company reports

Figure 10. Galeria Kaufhof/Galeria Inno: Key Developments in the Last Year

July 2016	HBC announces that the Galeria Kaufhof head office in Cologne will become the headquarters of HBC Europe
July 2016	HBC announces that it will open seven stores in the Netherlands, in addition to the four previously announced; 10 will operate under the HBC banner, while one will be a Saks Off 5th store
June 2016	HBC announces the first four Saks Off 5th locations in Germany
September 2015	HBC completes the acquisition of Galeria Kaufhof and its sister chain, Galeria Inno, from Metro Group

Source: Company reports

Galeries Lafayette and Printemps: Terrorism Threatens Visitor Traffic

Galeries Lafayette and Printemps lead the French sector by a long distance. Both are privately owned, so disclosure is limited. However, data that cover the first part of 2015 suggest that both saw some success in driving growth:

- In the first half of 2015 (latest), Groupe Galeries Lafayette grew sales at its Boulevard Haussmann store by 3.5%, according to press reports. However, its 58 provincial stores in aggregate posted a 0.5% drop in sales.
- In the year ended March 31, 2015, Printemps grew revenues by 4.2%, to €1.32 billion, according to S&P Capital IQ.

The French department-store sector is upscale and Paris-centric, and so will be disproportionately hit by tourism downturns.

Given the terrorist attacks in Paris in November 2015 and in Nice in July 2016, we expect the second half of 2015 will have been tougher and that 2016 will be tougher still. The French department-store sector is upscale and Paris-centric, and so will be disproportionately hit by tourism downturns.

Source: Shutterstock

The November 2015 Paris attacks hit shopper traffic hard in the short term. The Paris stores of Printemps and Galeries Lafayette saw visitor numbers slump by 30% and 50%, respectively, in the week after the attacks, according to press reports. Galeries Lafayette's CEO said in a December interview with *The Business of Fashion* that traffic from French shoppers fell by 20% after the November 2015 attacks, but that international customer

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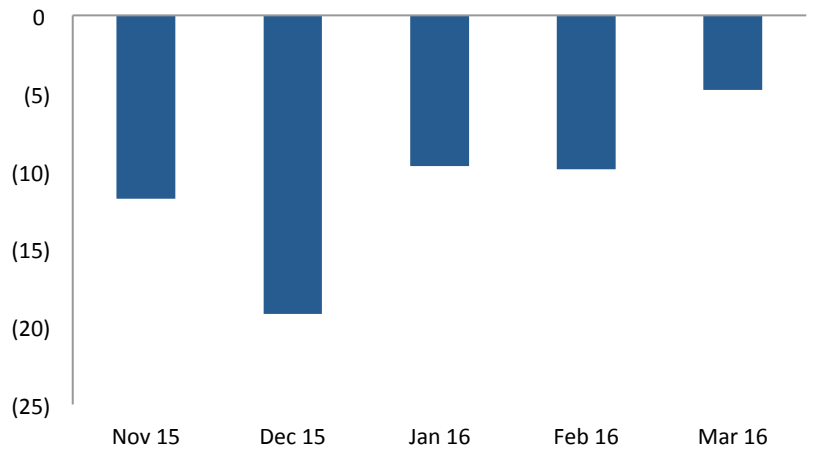
numbers remained stronger (except for the more cautious Japanese, who, he said, "totally disappeared").

Source: Shutterstock

Research firm STR Global, which monitors hotel performance worldwide, says that hotel booking levels tend to stabilize around three months after a terrorist attack and return to positive growth around five months after an attack.

Figure 11. Paris: Decline in Hotel Occupancy Rate, YoY % Change



Source: STR Global/Fung Global Retail & Technology

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However, the pattern of frequent, sometimes smaller-scale, attacks is a new one for Europe. And it is likely to lead to a sustained decline in consumer confidence, sporadic declines in shopper traffic and a softening of international visitor numbers. Each of these is likely to hit premium retailers such as Galeries Lafayette and Printemps.

KEY TAKEAWAYS

Across countries, the midmarket is as tough as ever.

Developments in the sector continue apace, with HBC's acquisition of Galeria Kaufhof and Debenhams's appointment of its next CEO from Amazon among the most interesting. We look forward to seeing fresh ideas emerge at both these chains.

Across countries, however, the midmarket is as tough as ever. Major department-store chains in this space are trying to bolster their appeal or offset weaknesses in their core market through private-label innovations, building value in their brand (instead of constantly discounting), off-price formats and internationalization.

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