MONTHLY BRIEFING

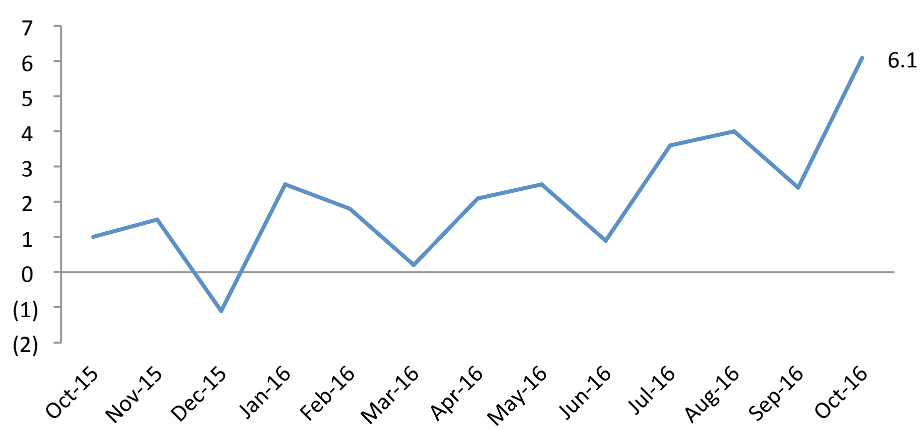
UK MONTHLY RETAIL BRIEFING: OCTOBER 2016—A PRE-CHRISTMAS BOOM

Pure Plays Strong, Apparel Stores Recover

Here are our top takeaways from the October data:

1) Total UK retail sales jumped by 6.1% year over year in October, accelerating from 2.4% growth in September.
2) Grocery stores and Internet pure plays boosted the overall figures, and clothing stores saw a recovery to positive growth.
3) Online retail sales growth accelerated further, to an exceptionally strong 26.4%, helped, we suspect, by the effect of the depreciation of the pound on non-UK sales by UK retailers.
4) The strong trend supports our previously published forecast for a robust Christmas period (November and December).

Figure 1. UK Total Retail Sales (ex Automotive Fuel): YoY % Change



All data in this report are nonseasonally adjusted.
Source: Office for National Statistics (ONS)/Fung Global Retail & Technology

Notable Winners and Losers

Figure 2. UK Retail Sales: Notable Rising and Falling Sectors in October

Grocery retailers enjoyed a 3.0% bounce.

Clothing and footwear specialists recovered, to grow sales by 3.0%.

Internet pure plays and mail-order retailers saw another bumper month, with sales climbing 26.7%.

Electrical goods specialists were one of very few sectors to turn in negative growth, with sales down 2.6%.

Floorcoverings specialists were down 7.5%, but this is typically a highly volatile sector.

Book and news stores were the only other declining sector, down 5.9%.

Source: ONS/Fung Global Retail & Technology

DEBORAH WEINSWIG, MANAGING DIRECTOR, FUNG GLOBAL RETAIL & TECHNOLOGY
DEBORAHWEINSWIG@FUNG1937.COM US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

RETAIL IN DETAIL

The strong performance in October makes us confident in our forecast for a robust holiday period, which we consider to be the final two months of the year. Our report *UK Christmas 2016 Retail Outlook: A Bumper Brexit Holiday Expected* is available here: bit.ly/FungUKChristmas2016

Total retail sales in October were boosted by a good performance in the grocery sector and booming sales among Internet pure play and mail-order retailers, as well as a return to positive growth for clothing and footwear specialists.

Grocery: Coupled with recent sector data from Kantar Worldpanel and company data from nondiscount retailers such as Tesco, the ONS data suggest some recovery in grocery. As we noted in our recent report on holiday themes, we expect a number of hard-hit nondiscount grocery retailers to benefit from a trading-up trend this Christmas. Our report *Holiday Shopping Themes 2016: The US and the UK* is available here: bit.ly/FungHoliday2016Themes

Clothing: The recovery to positive growth is something of a surprise, given the consistency of the downturn so far this year. Colder weather and the impact of the depreciation of the pound on non-UK sales made by UK retailers are two likely tailwinds in October.

Pure Plays: We think Internet-only retailers have seen a particular boost from the depreciation of the pound. Retailers such as ASOS and boohoo.com generate a considerable proportion of sales outside the UK, and these are presumably included in their data submitted to the ONS—the weak pound will, therefore, be boosting their reported revenues. But the performance is also indicative of an underlying outperformance by pure plays when measured against total Internet sales and the online sales of multi-channel retailers.

Figure 3. UK Retail Sales, by Sector: YoY % Change

	August	September	October
Total (ex Automotive Fuel)	4.0	2.4	6.1
Grocery Retailers	3.0	(0.1)	2.5
Specialist Food Stores	8.3	6.8	5.8
Beverage and Tobacco Specialists*	19.7	7.1	13.4
Mixed-Goods Retailers/Department Stores	7.1	5.8	5.3
Clothing Specialists	(4.0)	(5.1)	2.7
*Large Clothing Specialists***	*0.7*	*(3.1)*	*5.3*
*Small Clothing Specialists***	*(29.5)*	*(19.3)*	*(17.8)*
Footwear Specialists	0.4	0.7	3.9
Furniture and Lighting Stores	5.3	(0.4)	0.4
Electrical Goods Specialists	(6.7)	(0.8)	(2.6)
DIY and Hardware Stores	(4.6)	(5.5)	2.7
Music and Video Specialists	(10.1)	(11.5)	5.8
Health and Beauty Specialists	15.4	10.2	12.6
Books and News Stores	(14.3)	(9.4)	(5.9)
Floor Coverings Specialists*	(8.4)	(7.4)	(7.5)
Computers and Telecoms Equipment*	2.5	(2.8)	16.5
Other Specialized Stores	9.9	10.0	13.0
Mail Order and Internet Pure Plays	17.3	23.2	26.7
Other Nonstore Retail*	6.6	3.5	15.5

** Relatively small sector, where figures may be distorted by methodological issues such as changes in the survey sample.*
***A small retailer is defined as one with fewer than 100 employees or with revenues of £60 million or less per year; all others are large retailers.*
Source: ONS

DEBORAH WEINSWIG, MANAGING DIRECTOR, FUNG GLOBAL RETAIL & TECHNOLOGY
DEBORAHWEINSWIG@FUNG1937.COM US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

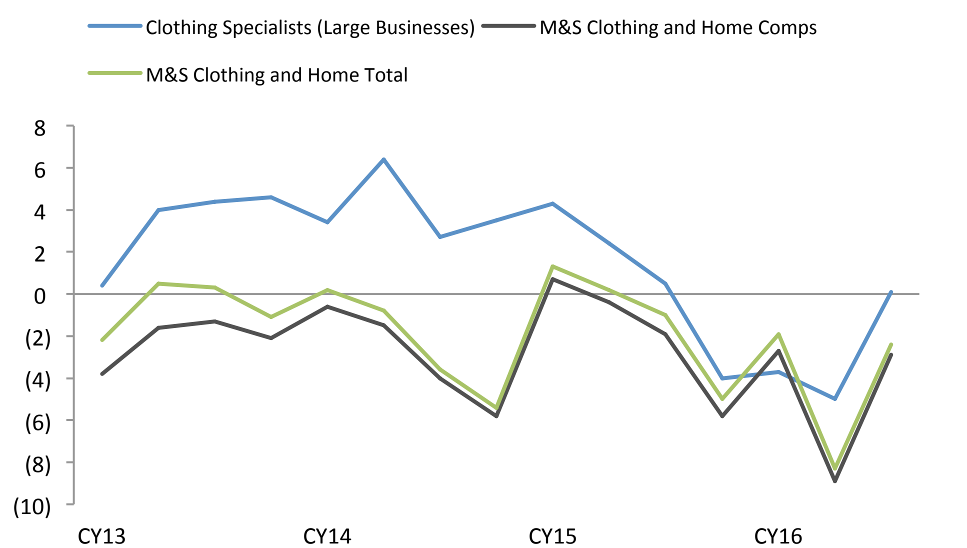
ONS Numbers Suggest Top-Line Improvements at M&S

The performance of M&S's Clothing and Home division remains one of the most talked-about themes in retail. This stalwart of British retailing has turned in comparable sales declines in its Clothing and Home segment in 20 of its most recent 21 quarters. In its latest quarter, ended October 1, M&S posted segment comps of (2.9)%.

We observe a correlation between this segment's performance 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.

- In September, the large clothing specialists sector posted a decline of 3.1%.
- In October, the sector recovered to 5.3%, which bodes well for M&S's next quarterly figures.

Figure 4. Clothing Specialists' (Large Businesses) Sector Sales vs. M&S Clothing and Home Segment Comparable Sales: YoY % Change, by Quarter

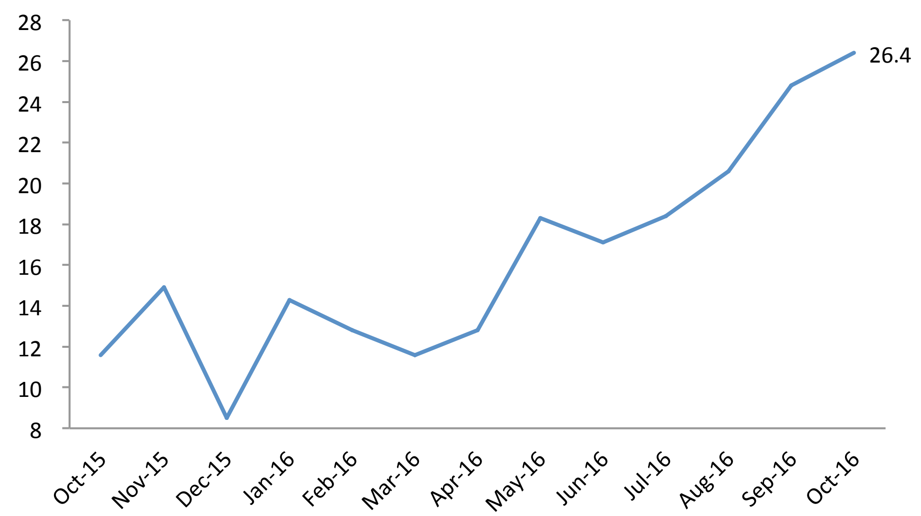


Closest comparable quarters were used; latest ONS quarterly data are for the second quarter.
Source: ONS/company reports/Fung Global Retail & Technology

Online Retail Sales Growth Is Accelerating

Internet growth strengthened further in October, continuing a medium-term trend. As with the data for pure plays, noted above, we expect the depreciation of the pound to be boosting international sales made by UK retailers and recorded in the ONS data.

Figure 5. UK Internet Retail Sales: YoY % Change



Source: ONS

Nonstore retailers—mainly Internet pure plays—recorded very strong growth. The improvement in clothing and footwear specialists' total sales fed through to their Internet sales.

E-commerce accounted for 15.1% of all retail sales in August. The online channel's contribution was 13.6% at clothing and footwear specialists, 5.2% at food stores and 9.9% at household goods stores.

Figure 6. UK Internet Retail Sales, by Sector: YoY % Change

	August	**September**	**October**
All Internet Retail Sales	20.6	24.8	26.4
Food Stores	10.9	13.3	24.7
Mixed-Goods Retailers/Department Stores	18.0	19.9	18.8
Clothing and Footwear Specialists	(3.1)	(3.1)	5.1
Household Goods Stores*	53.6	40.4	42.4
All Other Stores	33.6	29.2	31.2
Nonstore Retailers	26.1	34.9	32.0

**Includes furniture and lighting specialists, electrical goods retailers, DIY and hardware stores, and music and video retailers.*
Source: ONS

DEBORAH WEINSWIG, MANAGING DIRECTOR, FUNG GLOBAL RETAIL & TECHNOLOGY
DEBORAHWEINSWIG@FUNG1937.COM US: 917.655.6790 HK: 852.6119.1779 CN: 86.186.1420.3016

MONTHLY BRIEFING

Deborah Weinswig, CPA
Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

John Mercer
Senior Analyst

HONG KONG:
8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

LONDON:
242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

NEW YORK:
1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com