Weinswig's Weekly

FUNG GLOBAL RETAIL & TECHNOLOGY

1) This week's note "From the Desk of Deborah Weinswig" discusses the upcoming retail holiday season, including Black Friday, and our expectations regarding promotional activity this holiday season.
2) This year, more Americans are expected to begin their holiday shopping in the middle of the season, or Thanksgiving weekend, as opposed to late in the season, or early December, a new survey from The NPD Group has found.
3) Less than one week after announcing its acquisition of Lord & Taylor's flagship store in New York, office-space firm WeWork is reportedly set to pay around £600 million (US$796 million) for a large development in the City of London.
4) Smartphone shipments in India grew by 23% and crossed the 40 million mark for the first time in the third quarter of 2017. That means India has overtaken the US in smartphone sales.

November 3, 2017

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Stat of the Week

$1,276 Mil.

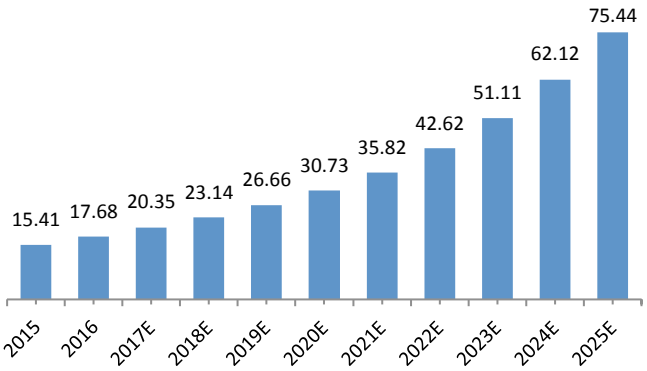
- Amazon's physical stores generated $1,276 million in sales in the third quarter of 2017, according to the company's October 26 results announcement, which broke out sales at physical stores for the first time.
- Amazon's brick-and-mortar presence includes grocery chain Whole Foods Market, which the firm acquired on August 28, and Amazon Books bookstores.

Source: Company reports

Chart of the Week

The Internet of Things (IoT): Number of Connected Devices Worldwide (Bil. Units)

Information and analytics firm IHS Markit forecasts that the IoT market will grow from 15.4 billion connected devices in 2015 to 75.4 billion in 2025, an increase of almost 400%. Retail supply chain management is expected to be one of the main areas of growth for IoT applications.



Source: IHS Markit

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From the Desk of Deborah Weinswig

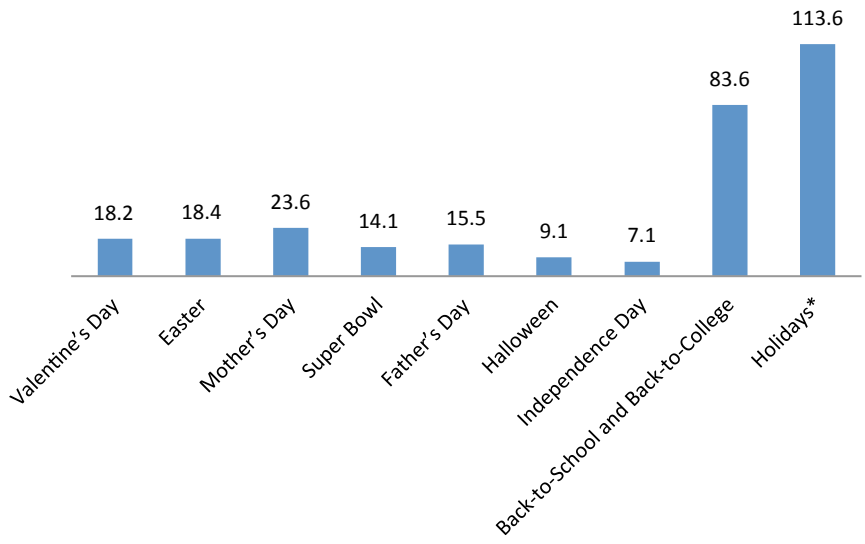
The Holidays, Black Friday and the Discounting Spiral

Putting the Holidays in Context

Like it or not, the passing of Halloween means that we are now racing toward the holidays. There are a handful of calendar events that each contribute billions to US retail sales throughout the year and—equally as important—prompt shopper excitement and so drive traffic into stores. But other than the back-to-school and back-to-college shopping period, none of these calendar events comes close to the winter holidays. This year, we expect American shoppers to spend about $114 billion on holiday gifts, food and treats in the final two months of the year.

The graph below shows how the major calendar events of this year, from Valentine's Day through the winter holidays, shaped up (or are forecast to shape up) for US retailers.

Estimated US Retail Spending on Major Calendar Events, 2017 (USD Bil.)



**Holiday spending in November and December*
Source: National Retail Federation/US Census Bureau/FGRT

We Expect Another Promotional Holiday

The next major event on the calendars of retail analysts and consumers is Black Friday. It falls early this year, on November 24, but that will not be the only factor pulling holiday spending forward this year. We expect to see more retailers seek to preempt the competition by starting promotions earlier this year, including Black Friday promotions.

Last year, online coupon firm RetailMeNot found that the average holiday offer began nearly five days before Thanksgiving. According to the firm's survey data, nearly 80% of retailers will begin holiday marketing efforts earlier this year than they did last year, and RetailMeNot expects that the Thanksgiving–Cyber Monday shopping weekend will stretch into two full weeks of promotions. Similarly, news site BlackFriday.com is forecasting that retailers will launch early Black Friday sales this year, and it points out that Amazon's Countdown to Black Friday began on November 1 last year.

Pulling forward holiday deals further compounds the discounting spiral that has conditioned shoppers to expect to buy on sale and forced retailers to outflank each other on the depth or timing of promotions. US retail is abuzz with chatter about store closures and the need for some brick-and-mortar stores to downsize their estates, but retailers must find a way out of the discounting spiral, too, in order to rebuild equity in their brands and integrity in their pricing.

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US RETAIL EARNINGS

		Revenues (USD Mil.)		YoY % Change	Gross Margin (%)		Change (bps)	Net Income (USD Mil.)		YoY % Change	Store Fleet EOP	
Company	Period	TY	LY		TY	LY		TY	LY		TY	LY
Simon Property Group	3Q17	1,404	1,357	3.4	62.4	49.8	1,260	515	506	1.8	N/A	N/A
Under Armour	3Q17	1,406	1,472	(4.5)	45.9	47.5	(155)	54	128	(57.7)	280	225
Walgreens Boots Alliance	4Q17	30,149	28,636	5.3	24.3	25.0	(60)	802	1,030	(22.1)	12,831	12,857

Source: Company reports

US RETAIL & TECH HEADLINES

Marriott Rewards Debuts Tool to Preload Points Balances When Shopping at Retail Sites
(November 1) Skift.com

- Marriott is expanding its loyalty program, Marriott Rewards, to allow members to earn and spend points on everyday online purchases. Marriott Rewards members will be able to either pay for purchases with points or elect to earn points when paying with cash.
- For now, the program is open to US, UK and Canadian retailers, with 29, 27 and 25 partners on board in each region, respectively. Amazon, Apple, Best Buy and Banana Republic are among the retailers headlining the partner lineup.

There May Be Fewer "Last-Minute Shoppers" This Holiday Season, Survey Finds
(October 30) CNBC.com

- This year, more Americans are expected to begin their holiday shopping in the middle of the season, or Thanksgiving weekend, as opposed to late in the season, or early December, a new survey from The NPD Group has found.
- This marks the first time the research firm has noticed such a drastic shift forward in shoppers' spending timelines during the November and December months. NPD surveyed nearly 3,800 US consumers in September on their holiday purchase intentions.

Food Goes Digital: Online Grocery Shopping Becomes Fastest-Growing Sector in US Retail
(October 26) USA Today

- A tech-savvy, time-starved population, led by the 18–35 age group, has catapulted digital grocery shopping into the fastest-growing segment in US retail.
- The latest survey by the Food Marketing Institute, a retail trade group, found that, in 2017, 43% of millennials surveyed said they shop online for groceries at least occasionally—a 50% jump from 2016, with much of the growth coming from those who say they shop for groceries online "either fairly often or all the time."

Under Armour Slashes Outlook amid Falling US Sales, Ops Challenges
(October 31) ChainStoreAge.com

- Under Armour's revenue fell by 5% in the company's most recent quarter, to $1.4 billion, missing Wall Street expectations of $1.5 billion. The company cited challenges stemming from implementation of its new enterprise resource planning system as well as a decrease in North American sales for its revenue decline.
- Under Armour slashed its sales expectations, and is now calling for revenue in the low-single-digit percentage range, down from a previous forecast of growth of 9%–11%. The company expects 2017 adjusted EPS of 18–20 cents.

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EUROPE RETAIL EARNINGS

Company	Period	Revenues (USD Mil.) TY	Revenues (USD Mil.) LY	Change in USD (%)	Change in Reporting Currency (%)	Gross Margin (%) TY	Gross Margin (%) LY	Change (bps)	Net Income (USD Mil.) TY	Net Income (USD Mil.) LY	YoY % Change	Store Fleet EOP 2017	Store Fleet EOP 2016
Debenhams	FY E Sep 2	2,956	3,331	(11.3)	1.1	12.4	12.9	(50)	61.8	123.9	(50.1)	246	250
DIA	3Q E Sep 30	2,553	2,588	(1.4)	(6.4)	N/A	N/A	N/A	71.4	68.2	4.8	7,425	7,430

Source: Company reports/FGRT

EUROPE RETAIL & TECH HEADLINES

Another New CEO for Asda

(October 31) TheTimes.co.uk

- Walmart-owned Asda, the UK's third-largest grocery retailer, announced that it will appoint a new CEO in January. Roger Burnley, who is currently Asda's COO and Deputy CEO, will take the reins from Sean Clarke, who was appointed CEO only in June 2016.
- Burnley was hired from J. Sainsbury in October 2016. Asda has been struggling with a decline in underlying sales over the last three years.

Marks & Spencer Closes Paris Champs-Elysées Store

(October 28) LeMonde.fr

- UK clothing and food retailer Marks & Spencer closed its flagship Paris store on October 31. The store was opened in 2011 under the company's previous CEO, Marc Bolland. Marks & Spencer's current CEO, Steve Rowe, is selectively withdrawing the company from some international markets.
- Marks & Spencer will continue to sell in France through franchised food stores and its website.

Burberry President Christopher Bailey to Leave Company

(October 31) Company press release

- Christopher Bailey, President and Chief Creative Officer of Burberry, is set to leave the company at the end of March 2018.
- Bailey was appointed CEO in May 2014 before being replaced in the CEO role by Marco Gobbetti. "We have a clear vision for the next chapter to accelerate the growth and success of the Burberry brand," Gobbetti said this week.

Aldi Nord and Aldi Süd Cooperate on Gift Cards

(October 31) ESMmagazine.com

- In Germany, Aldi Nord and Aldi Süd this week announced that they are launching gift cards that will be redeemable in all Aldi stores in the country. It is a sign of closer cooperation between the two traditionally distinct companies.
- The new cards will be available in Aldi stores across Germany beginning in mid-November.

WeWork Acquires City of London Property for £600 Million

(October 29) TheTimes.co.uk

- Less than one week after announcing its acquisition of Lord & Taylor's flagship store in New York, office-space firm WeWork is reportedly set to pay around £600 million (US$796 million) for a large development in the City of London. WeWork is buying the 620,000-square-foot Devonshire Square complex near Liverpool Street station.
- Since the start of the year, WeWork has secured £1 billion (US$1.3 billion) of UK leases. The UK is the company's second-largest market after the US

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ASIA TECH HEADLINES

Chinese Social Media Giant Weibo Is Raising $700 Million to Fund Acquisitions
(October 25) TechCrunch.com

- Weibo, the Twitter-like Chinese social network, is raising $700 million as it looks for acquisitions to continue the skyrocketing growth its business has seen in 2017. The Beijing-based company announced that it will offer up to $700 million in convertible senior notes in order to finance "working capital needs and potential acquisitions of complementary businesses."
- Weibo claims 159 million daily users—and 361 million monthly users—and, according to unaudited figures released last week, its most recent quarterly profit reached a record $101.1 million, up from a then-record $73.5 million in the previous quarter. The company's profits increased by 184% year over year in the previous quarter, so Weibo has plenty of momentum right now.

Nintendo Says Switch Will Beat Wii U Total Sales Within Its First Year
(October 31) TechCrunch.com

- Nintendo's new Switch console is likely to outsell the Wii U, its predecessor, within one year of its release. Nintendo raised its prediction for total Switch sales over its financial year—which runs April–March—to 14 million units, up from 10 million initially. If it can hit that number, then the Switch will already have bested the Wii U, the flop console that heralded Nintendo's first step into hybrid gaming and sold just over 13.5 million units across its entire lifecycle.
- Sales of Switch consoles and games, combined with Nintendo's lucrative smartphone games, helped the firm post a ¥23.8 billion (US$209 million) operating profit on total revenue of ¥220 trillion (US$1.93 billion) for its fiscal second quarter. Overall, 2.93 million units were shipped during the quarter, taking the Switch to 7.63 million units shipped to date.

iPhone 8 Launch Propels Apple to Growth in China After 18 Months of Sales Dips
(October 31) TechCrunch.com

- Apple has finally returned to growth in China. The company has broken a run of sales decreases that stretches back six quarters thanks to promising early signs for the newly released iPhone 8, according to a new report from Canalys. The analysis firm recorded 40% annual growth for Apple in the third quarter of 2017, with 11 million shipments during the three-month period.
- Apple's revenue from China was down by more than 50% from two years ago, according to its most recent earnings announcement, so growth is much needed. However, despite progress, the firm ranked only fifth in terms of smartphone shipments in China in the Canalys report.

India Overtakes the US to Become the World's Second-Largest Smartphone Market
(October 27) TechCrunch.com

- According to a new report from Canalys, smartphone shipments in India grew by 23% and crossed the 40 million mark for the first time in the third quarter of 2017. That means that India has overtaken the US in smartphone sales, with only China ahead of it.
- "This growth comes as a relief to the smartphone industry. Doubts about India's market potential are clearly dispelled by this result," Canalys Research Analyst Ishan Dutt said in a statement. India's smartphone market will require patience, because issues such as complicated supply chains, local retail laws, import taxes, lower GDP and poorer-quality Internet service are likely to restrict smartphone sales in the country for some time.

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LATAM RETAIL & TECH HEADLINES

Uber CEO Visits Brazil Ahead of Mobility Bill Vote
(October 30) ZDNet.com

- Uber CEO Dara Khosrowshahi visited Brazil for appointments that included a visit to the country's capital of Brasília ahead of a Senate vote to regulate mobility apps. Khosrowshahi planned to visit Uber's Brazil headquarters in São Paulo and then head off to Brasília, according to information from Reuters.
- The regulations that were scheduled to be voted on could threaten the business model practiced by Uber and other ride-sharing apps operating in Brazil. Uber is by far the most popular ride-sharing app in the country, followed by local firm 99 and Spanish company Cabify.

Bradesco Seeks Financial Services Startups
(October 27) ZDNet.com

- Brazilian banking giant Bradesco has launched the fourth edition of its acceleration initiative aimed at financial services ventures. The InovaBra project is open to receiving applications from startups developing products and services in areas such as payments, security, client engagement, the Internet of Things and blockchain.
- The program has a total duration of 10 months, with the selection process alone taking four months. Once selected, the ventures will receive guidance and improvement of their products and services—and will also have the chance to sell their offerings to Bradesco.

Brazilian Fintech Nubank Aims for the Country's Unbanked
(October 25) Reuters.com

- São Paulo–based fintech Nubank has announced its plans to cater to Brazil's unbanked population with a digital bank account. Approximately 60 million people in Brazil do not have a bank account due to excessive fees and bureaucracy, said Nubank CEO David Vélez, who started the company three years ago as a credit card provider.
- The new product, dubbed NuConta, is now being tested with a limited number of users and will be rolled out to the company's existing base of 2.5 million credit card customers. The aim is to make the digital account available to all beginning in the first quarter of 2018.

Brazil's Renner Beats Profit Estimates as Credit Operation Gives Boost
(October 24) Reuters.com

- Lojas Renner, Brazil's biggest apparel retailer, beat third-quarter profit estimates as strong performance by its credit business and healthy sales at existing stores more than offset rising operational costs.
- Porto Alegre–based Renner said that net income totaled R$140 million (US$43 million) in the quarter, up 65% from the same period last year and above a Reuters consensus estimate of R$124 million (US$37.9 million). Same-store sales, a measure of sales at stores open for at least 12 months, climbed 13.4% from a year earlier as a recovery in consumer spending in Brazil gained steam.

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MACRO UPDATE

Key points from global macro indicators released October 25–November 1, 2017:

1) **US:** New home sales in the US jumped 18.9% month over month in September, reaching 667,000, which was above the consensus estimate. Pending home sales in September remained unchanged from the previous month. Real personal spending and inflation moderated upward in September. GDP grew by 3.0% quarter over quarter in the third quarter.
2) **Europe:** In the UK, GDP in the third quarter increased by 0.4% quarter over quarter; the rate was slightly higher than the consensus estimate. On a year-over-year basis, UK GDP increased by 1.5%. Consumer confidence in the UK registered at (10) in October.
3) **Asia-Pacific:** In South Korea, GDP in the third quarter increased by 1.4% quarter over quarter. In Singapore, industrial production increased by 14.6% year over year in September. In Japan, retail sales increased by 0.8% month over month in September.
4) **Latin America:** In Brazil, the manufacturing Producer Price Index (PPI) increased by 1.1% month over month and by 2.1% year over year in September. In Mexico, retail sales increased by 0.2% month over month in August, in line with the consensus estimate.

Country/ Region	Indicator	Period	Actual	Survey	Prior	Impact on Economy*
US	New Home Sales (Thous.)	Sep	667	554	561	+
US	New Home Sales (MoM)	Sep	18.9%	(1.1)%	(3.6)%	+
US	Pending Home Sales (MoM)	Sep	0.0%	0.5%	(2.8)%	–
US	Pending Home Sales (NSA, YoY)	Sep	(5.4)%	(4.2)%	(3.3)%	–
US	Retail Inventories (MoM)	Sep	(1.0)%	–	0.6%	=
US	GDP (QoQ)	3Q	3.0%	2.6%	3.1%	+
US	Real Personal Spending	Sep	0.6%	0.5%	(0.1)%	+
US	PCE Deflator (MoM)	Sep	0.4%	0.4%	0.2%	+
US	PCE Deflator (YoY)	Sep	1.6%	1.6%	1.4%	+
US	Core PCE Deflator (MoM)	Sep	0.1%	0.1%	0.1%	+
US	Core PCE Deflator (YoY)	Sep	1.3%	1.3%	1.3%	+
UK	GDP (QoQ)	3Q	0.4%	0.3%	0.3%	+
UK	GDP (YoY)	3Q	1.5%	1.5%	1.5%	+
UK	GfK Consumer Confidence Index	Oct	(10)	(10)	(9)	–
SK	GDP (Prelim., SA, QoQ)	3Q	1.4%	0.9%	0.6%	+
SK	GDP (Prelim., YoY)	3Q	3.6%	3.0%	2.7%	+
SI	Industrial Production (SA, MoM)	Sep	(0.5)%	(7.3)%	0.6%	+
SI	Industrial Production (YoY)	Sep	14.6%	10.0%	19.5%	+
JP	Retail Sales (MoM)	Sep	0.8%	0.8%	(1.6)%	+
JP	Retail Sales (YoY)	Sep	2.2%	2.3%	1.8%	+
BZ	Manufacturing PPI (MoM)	Sep	1.1%	–	0.1%	+
BZ	Manufacturing PPI (YoY)	Sep	2.1%	–	1.3%	+
MX	Retail Sales (MoM)	Aug	0.2%	0.2%	0.2%	–
MX	Retail Sales (YoY)	Aug	(0.2)%	0.5%	0.4%	–

**FGRT's evaluation of the actual figure's impact on the economy relative to historical benchmarks and the current macroeconomic environment: + indicates a positive signal for the country's economy, – indicates a negative signal and = indicates a negligible or mixed impact.*

Source: US Census Bureau/National Association of Realtors/US Bureau of Economic Analysis/UK Office for National Statistics/GfK (UK)/Bank of Korea/Singapore Economic Development Board/Ministry of Internal Affairs and Communications of Japan/Ministry of Economy, Trade and Industry of Japan/Instituto Brasileiro de Geografia e Estatística/Instituto Nacional de Estadística y Geografía/FGRT

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EARNINGS CALENDAR

Company	Earnings Release Period	Date	Sales (Mil.) Consensus TY	Sales (Mil.) LY Actual	EPS Consensus TY	EPS LY Actual	Currency
Revlon (REV)	3Q17	Nov 3	605	605	0.12	0.58	USD
CVS Health (CVS)	3Q17	Nov 6	46,186	44,615	1.48	1.53	USD
Michael Kors (KORS)	2Q18	Nov 6	1,048	1,088	0.83	0.98	USD
Associated British Foods (ABF.L)	FY17	Nov 7	15,222	13,399	1.26	1.04	GBP
Fossil (FOSL)	3Q17	Nov 7	650	738	(0.27)	0.42	USD
Tapestry (TPR)	1Q18	Nov 7	1,302	1,038	0.45	0.36	USD
Zalando (ZAL.DE)	3Q17	Nov 7	1,066	835	0.03	0.02	EUR
Marks & Spencer (MKS.L)	1H18	Nov 8	5,086	4,994	0.10	0.14	GBP
Adidas (ADS.DE)	9M17	Nov 9	5,942	5,413	2.55	1.90	EUR
Burberry (BRBY.L)	1H17	Nov 9	1,238	1,159	0.28	0.27	GBP
Coty (COTY)	1Q18	Nov 9	2,236	1,080	0.06	0.19	USD
Nordstrom (JWN)	3Q17	Nov 9	3,578	3,542	0.64	0.85	USD
Kohl's (KSS)	3Q17	Nov 9	4,298	4,327	0.72	0.82	USD
Macy's (M)	3Q17	Nov 9	5,310	5,626	0.15	0.17	USD
J. Sainsbury (SBRY.L)	1H17	Nov 9	14,869	12,639	0.08	0.09	USD
Dillard's (DDS)	3Q17	Nov 9 (E)	1,333	1,407	0.32	0.67	USD
Unicharm (8113.JP)	3Q17	Nov 10	145	160	20.75	19.89	JPY
Richemont (CFR.VX)	1H17	Nov 10	5,516	5,086	1.57	1.10	EUR
JCPenney (JCP)	3Q17	Nov 10	2,763	2,857	(0.40)	(0.21)	USD

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EVENT CALENDAR

Event	Location	Date(s)	FGRT Presenting/ Attending
Retail Marketing Society: Holiday '17 & Beyond	New York, NY	Nov 7	
RSA Conference 2017	Abu Dhabi, UAE	Nov 7–8	
Avery Dennison D-E-Q: Digital Emotional Intelligence	New York, NY	Nov 8	√
Fashwire Launch at Blueprint + Co.	New York, NY	Nov 8	√
Foresight Factory: Trending 2017	London, UK	Nov 8	
CES Unveiled New York	New York, NY	Nov 9	
Citi Private Company Innovation Summit	Santa Rosa, CA	Nov 9–10	
Alibaba 11.11 Global Shopping Festival	Shanghai, China	Nov 10–12	√
QTS Investor Day 2017	Fort Worth, TX	Nov 13	
Morgan Stanley Global Consumer & Retail Conference	New York, NY	Nov 14–15	
IDTechEx Show: Wearable USA and Printed Electronics USA	Santa Clara, CA	Nov 15–16	
Coca-Cola 2017 Investor Day	Atlanta, GA	Nov 16	
Planalytics Q3 Recap & 2017 Annual Holiday Outlook	Webcast	Nov 16	√
L Brands Annual Investor Meeting	Columbus, OH	Nov 22	
Asia-Global Dialogue 2017	Hong Kong	Nov 22	
Fortune Brainstorm Tech International	Guangzhou, China	Dec 5–6	
Asian E-Tailing Summit	Hong Kong	Dec 6	
Home Depot Investor/Analyst Day	Boston, MA	Dec 6–7	
Fortune Global Forum	Guangzhou, China	Dec 6–8	√
ICSC New York Deal Making	New York, NY	Dec 6–8	

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