

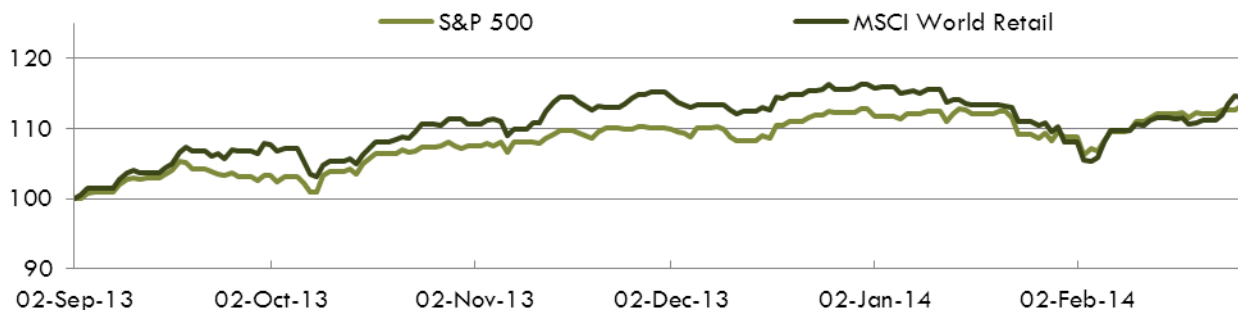
Retail

Sector Review – February

1. Sector Overview

- Blackstone announced that it will take 20% stake in the Italian high-end brand Versace. The New York based buyout group valued the company at €1bn including debt. The deal will include an injection of €150 m of capital and the purchase of €60 m worth shares from Versace family. The main objective of this operation is supporting Versace's growth, especially in Asian markets. This is the first Blackstone's investment in luxury industry; however, it follows the path already drawn by other private equity fund, attracted by the high growth perspectives of this sector.
- Costa Coffee, the UK coffee chain is trying to expand in the Chinese market where its US rival, Starbucks, already has a stronger network. The aim of the company is reaching 700 outlets by 2017. The goal might be challenging in a country where tea is historically preferred. Costa Coffee is driven by the goal of diversifying its portfolio in order to balance low performing regions with well performing ones.
- The Danish toymaker Lego announced to have outperformed the global toy market trend, increasing profits by 10 percent. In the last years, the industry was affected by the spread of tablet and computer games among children. However, Lego was able to hit sales of \$4.7 bn in 2013 with operating profit of \$1.5 bn, which was even higher than the first player of the market, Mattel. Lego expects to outperform the market in 2014 as well. It announced the development of digital ideas, as "Build with Chrome", new products for older than 10-year-old target and new lines of Lego Friends.

Retail vs. Overall market



- Both MSCI World Retail Index and S&P 500 has continued to improve from October 2013 to January 2014 when it started to decrease. It has just started to recover during last month. The spread between the two indexes approached to zero. It is observable the existence of a strong correlation between both indexes as their fluctuations proved to be quite parallel.

Retail Universe:

- LVMH
- Amazon
- Inditex
- Jerónimo Martins

This month's detailed company review:

- Tesco



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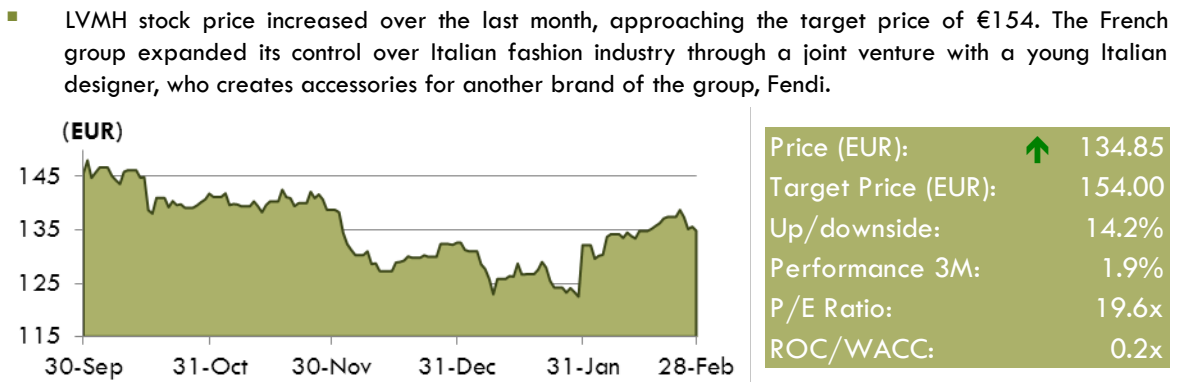
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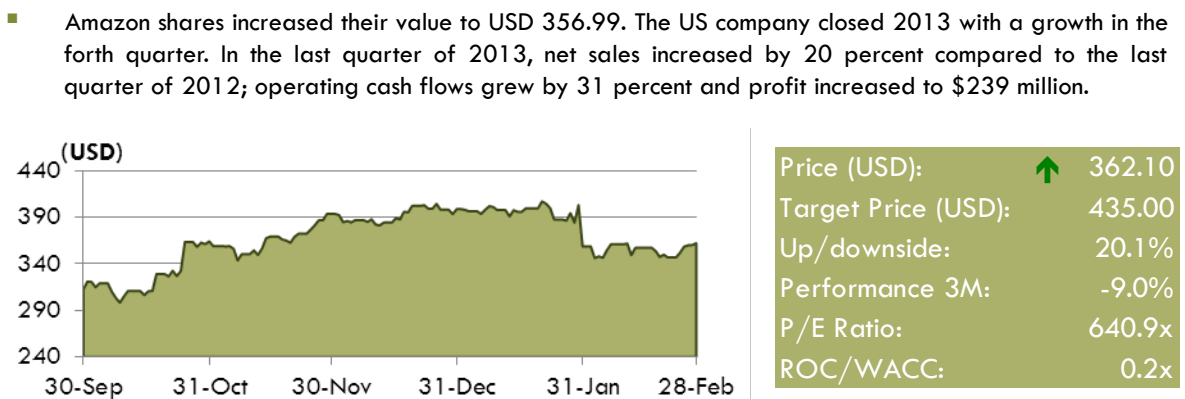
LVMH

(Ticker: MC FP)



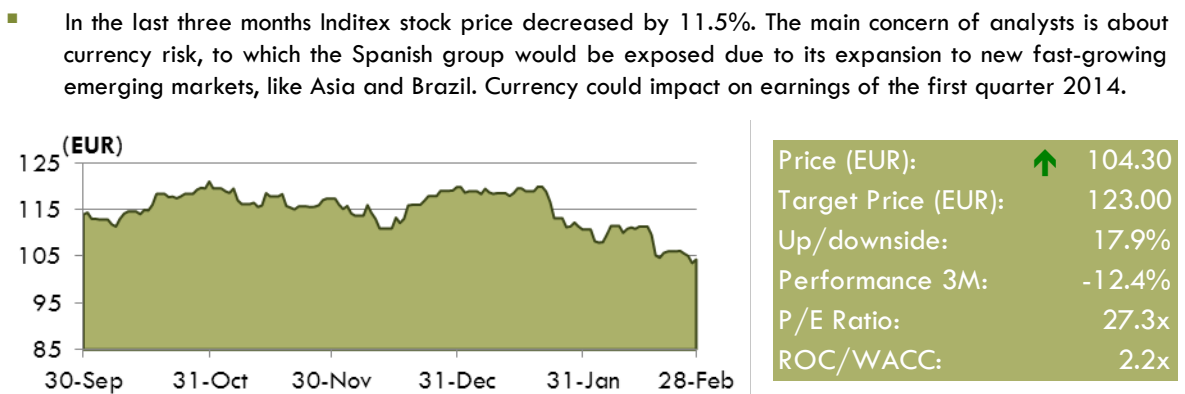
Amazon

(Ticker: AMZN US)



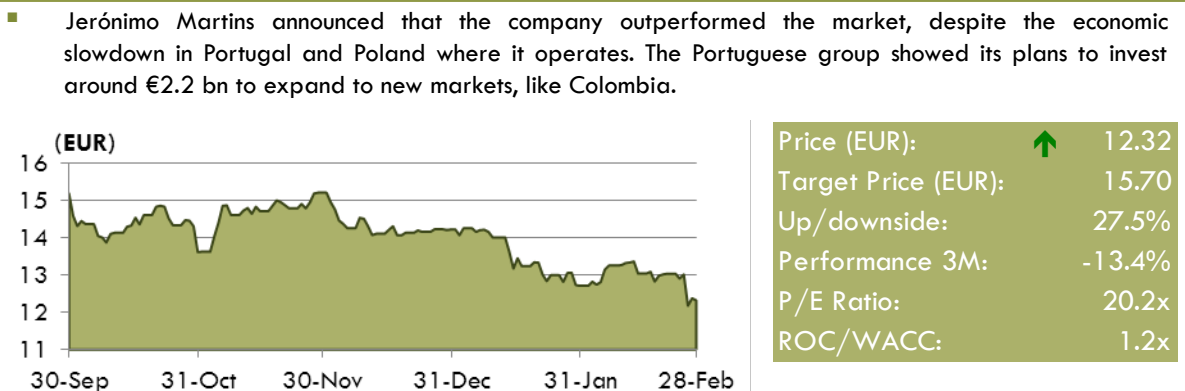
Inditex

(Ticker: TSCO LN)



Jerónimo Martins

(Ticker: JMT PL)



3. Stock Analysis: Tesco

Corporate News

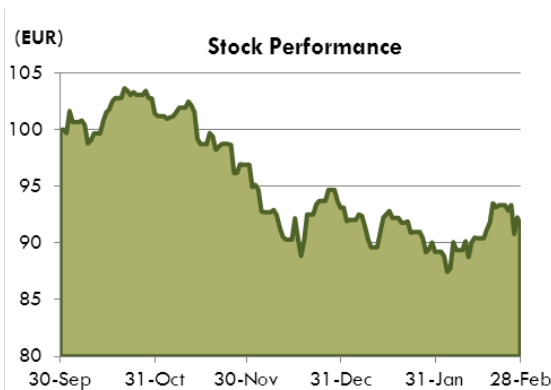
- Tesco announced its plans to halve the amount of new supermarket space it opens this year at the same time that it prepares to spend 200m GBP lowering its prices. Such announcement comes mainly as an attempt to kick-start a recovery plan for its struggling UK business.
- The ever lower growth achieved comes mainly as a consequence of shifting customers habits, namely towards an easier to deliver, online shopping business model. Besides, the industry lives in times of ferocious competition, as big hard discounters such as Aldi and Lidl gain strength in the market place.

Market Performance

- Tesco's stock price performance has been fairly volatile in the last two months. After a period of slump in the beginning of the current year, the title seems to have entered into a period of confidence in the beginning of February, closing at 3.29 GBP.
- Analysts have expressed its concerns about Tesco being losing market share apace, together with falling sales in the UK, therefore arriving to a tight average interval for analyst's consensus.

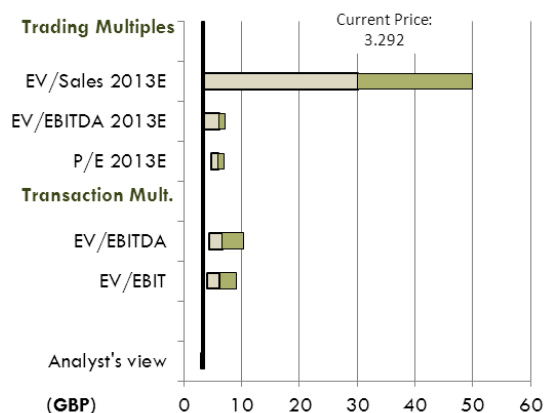
Valuation Summary

- From a valuation perspective, it seems clear that the current stock price is not in line with the EV/Sales and approximately aligned with EV/EBITDA and P/E trading multiples. The huge discrepancy denoted in the EV/Sales has its roots mainly from the high cost-intensive nature of retail business with high cost lines.
- As previously stated, analysts seem to agree that the company is fairly priced, with the stock trading exactly close to the consensus average. Further, transaction multiples are roughly in line with the current stock price.



Tesco (GBP)	
Current Price (28/02/2014)	3.29
52-week high % change	-15.2%
Median Target Price	3.37
Market Capitalisation (mn)	26,627
Return on Common Equity	-2.0%
Dividend Yield	5.0%
Beta (vs. S&P500)	0.8x
Total Debt/Equity	65.0%

Valuation Summary (Price per Share)



Comparable Analysis

Company Name	Currency	MCap (mn)	Enterprise Value (mn)	EV/Sales			EV/EBITDA			P/E		
				LTM	2013E	2014E	LTM	2013E	2014E	LTM	2013E	2014E
Tesco	GBP	26,627	34,923	0.6x	0.5x	0.5x	8.4x	7.3x	7.2x	10.3x	10.9x	11.1x
Sainsbury	GBP	6,515	8,748	0.4x	0.4x	0.3x	6.1x	6.2x	5.9x	11.1x	10.6x	10.2x
Carrefour	EUR	19,345	26,414	0.3x	0.3x	0.3x	7.4x	7.1x	6.7x	197.2x	19.7x	16.9x
Metro AG	EUR	9,795	12,245	-	0.2x	0.2x	-	4.1x	3.9x	-	15.9x	13.3x
Wal-Mart	USD	2,018	-	-	-	-	-	-	-	17.9x	16.1x	14.3x
Jerónimo Martins	EUR	7,750	8,343	0.8x	0.6x	0.6x	10.8x	9.6x	8.5x	20.2x	17.8x	15.4x
75th Percentile				0.6x	0.5x	0.5x	9.0x	7.3x	7.2x	20.2x	17.4x	15.1x
Median				0.5x	0.4x	0.3x	7.9x	7.1x	6.7x	17.9x	16.0x	13.8x
25th Percentile				0.4x	0.3x	0.3x	7.0x	6.2x	5.9x	11.1x	12.2x	11.7x

- Looking at the table Tesco trades at multiples slightly higher than the median of the comparables considered, both in terms of EV/Sales and EV/EBITDA. This might signal a higher efficiency due to a higher EV per unit of sales or operating result. On the other hand, Tesco's P/E is lower than the median of the peer group possibly indicating that the company is perceived as a mature one, with low expectations for future growth.
- Focusing on the comparable companies, Carrefour and Jerónimo Martins show the highest multiples in terms of P/E and EV/Sales. In fact, these companies are more expensive than Tesco which is probably due to the different stages of growth in which the companies are. Such analysis makes sense if one takes into account the current trends by which the companies started to gain market share globally.

Precedent Transactions

Announced Date	Target		Buyer		EV		
	Company	Country	Company	Country	(EUR mn)	EV/EBITDA	EV/EBIT
22-Oct-12	Ancestry.com Inc	USD	Permira Holdings Ltd	UK	1,081	9.3x	12.5x
21-Feb-12	Alibaba.com Ltd	HK	Alibaba Group Holding	HK	1,778	26.5x	30.2x
27-Oct-11	Rue du Commerce	FRN	Altarea	FRN	49	16.5x	23.1x
03-Feb-11	Culture Convenience Club Co. Ltd.	JPN	MM Holdings Co Ltd	JPN	915	7.9x	11.6x
75th Percentile						19.0x	24.9x
Median						12.9x	17.8x
25th Percentile						8.9x	12.3x

- Globally, the precedent comparable transactions present valuations below the ones from the trading multiples, mainly the EV/Sales and EV/EBITDA. This is not very usual because it means that the normal effect from the premium that is paid in deals, is not enough to overcome the trading multiples of the comparable companies. Yet, this may be simply explained if we look at the deals considered. These target companies might not capture the full spectrum of operations of the Tesco, explaining the low valuations.
- Regarding the universe of comparable precedent transactions, it becomes clear that the most representative one would be the acquisition of Ancestry.com Inc by Permira Holdings. This multiple applied to the current metrics of Tesco would bring the valuation to zones more in line with the current market price and analysts consensus. The fact that the acquirer was a financial sponsor minimizes the effect of possible premiums paid for synergies, therefore arriving to matching valuations with market views.