

Food retail market

Current and future consumer trends

■ **Food retail is one of the few segments where sales are at a record high due to the coronavirus crisis.** Food retail sales have shown a positive trend not only during the lockdown but also afterwards. During the lockdown, retailers operating small stores benefitted the most. However, hypermarket¹ operators, with their offer as one-stop shop and safer shopping are also trying to lure back customers through lower prices. We assume that the gap between the performance of hypermarkets and other shopping formats is narrowing. For 2Q20, we estimate that profitability of food retailers will improve further despite additional costs due to COVID-19.

■ **COVID-19 is supporting home delivery of groceries.** In times of increasing fear of COVID-19 infection, people are avoiding interaction as much as possible – and this includes trips to the supermarket. In France, Carrefour is well positioned to gain online share as it operates the second-largest “drive through” network in France and several meal-kit delivery companies. Casino is the owner of Cdiscount, the second-largest online retailer in France after Amazon.com. Before the crisis started, about 7% of UK grocery sales were delivered to homes. Market leader Tesco had a 35% market share and increased its online deliveries from 9% to 16% of sales.

■ **During the coronavirus crisis, safety, as well as prices, is an increasingly important consideration for customers.** Food retailers have communicated the safety measures they have implemented in the stores in order to reassure shoppers. Penetration of private labels, for example, has increased in France since the outbreak of COVID-19. This is in-line with the strategy of some retailers to increase private-label sales.

■ **The coronavirus has halted the growth of German discounters Aldi and Lidl in the UK.** According to data from market research company Kantar Worldpanel (June 2020), Aldi and Lidl have both lost UK market share recently. In 1Q20, Tesco saw net switching gains from Aldi for the first time in over a decade supported by its “Aldi price match” campaign.

■ **From an environmental, social, and governance (ESG) perspective,** we assume that COVID-19 will delay the goals of food retailers to reduce their consumption of single-use plastics, mainly due to increased consumer demand for safety and availability of products. However, the food retail sector still has an average ESG risk compared to other industry sectors.

■ **Positive news, even in 2050 there will be supermarkets.** However, technologies (e.g. drop-off scanners, indoor positioning systems, personal shopping assistants) will take over large parts of the actual shopping. Amazon-Go is the first supermarket without cash registers in America.

■ **Recommendations:** We change our recommendation on Auchan to overweight from restricted. We do not expect the company to be downgraded to sub investment grade (-/BBB-n/-). In our view the execution risk for its transformation plan is reflected in current spread levels. We confirm our overweight recommendation on Tesco, which remains a deleveraging story, in our view. We change our recommendation on Carrefour to marketweight from restricted, due to the tight spread levels of CAF senior issues in comparison to its peers. We have a hold recommendation on Casino and do not anticipate a downgrade in the short-term.

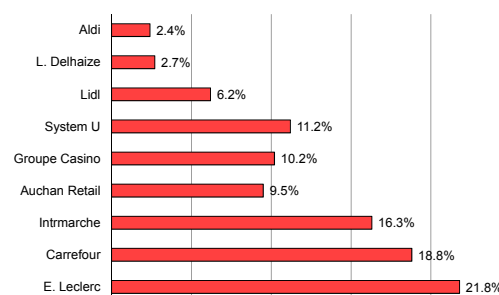
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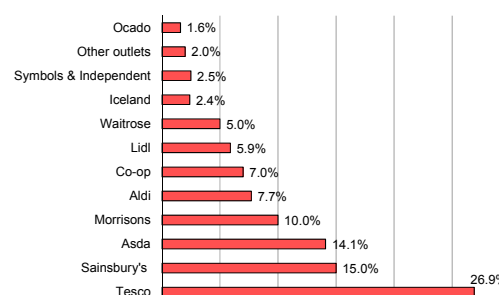
Ratings

Auchan (-/BBB-n/-): Overweight from Restricted
Carrefour (Baa1n/BBBs/-): Marketweight from Restricted
Groupe Casino (B2n/Bn/-): Hold
Tesco (Baa3s/BBB-s/BBB-s): Overweight

GROCERY MARKET SHARE FRANCE (30 JUNE)



GROCERY MARKET SHARE UK (17 MAY)



Source: Kantar World Panel, Bloomberg, UniCredit Research

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¹Selling space: hypermarkets >2,500sqm, supermarkets: 400-2,500sqm, convenience stores < 400sqm

Trends in the food retail market

Regional perspective – France

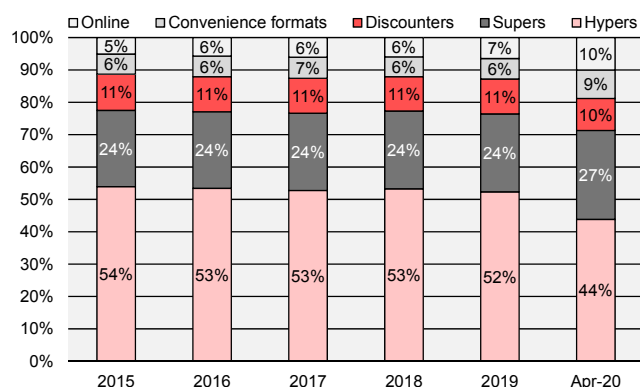
Food retail in France

France's retail landscape is characterized by high concentration in all channels. The top-three food retailers account for approximately 57% of the market (source Statista). Auchan has a market share of around 10%, similar to the market shares of Casino (10.2%) and Systeme U (11.2%). Its market share is around half that of Carrefour (18.8%) and Leclerc (21.8%).

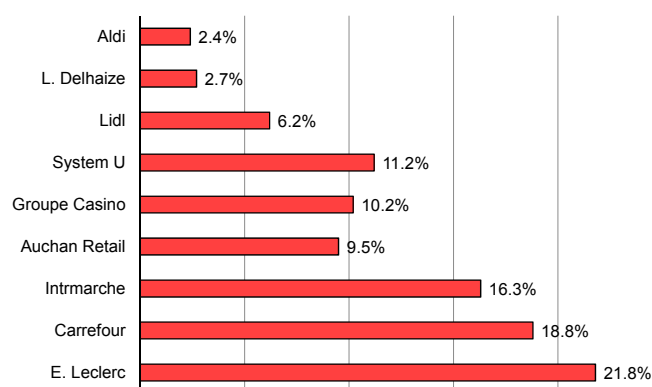
French food retail market by format

In France, hypermarkets (with a market share of greater than 50%) dominate the French food retail market, followed by supermarkets (around 25%). Overall retail food sales in France were estimated USD 310bn in 2019, two thirds of which were in hypermarkets and supermarkets. In 2019, hypermarkets posted a 1.2% sales decline, similar to 2018, driven by bigger hypermarkets (larger than 7,500 square meters). In supermarkets, those with an area above 2,000 square meters still outperform the smaller ones. In 2019, hypermarkets continued to suffer, driven by a change in customer habits towards faster grocery shopping and shopping for non-food online. As a result, all French hypermarket operators (e.g. Carrefour, Auchan and Cora) have experienced a significant transformation. During the lockdown, retailers operating small stores benefitted the most and the market share of hypermarkets decreased further to 44%. Since the easing of the lockdown, the situation for hypermarkets has improved. At the end of May, Research institute Nielsen, reported 8% growth yoy at hypermarkets (>7,500sqm: 3%, <7,500sqm: 13%). At the beginning of June, this sales format began to stabilize somewhat (+3% growth of hypermarkets). In June, hypermarket operators also reduced prices to try to lure back customers.

MARKET SHARE EVOLUTION OF FOOD RETAIL IN FRANCE



GROCERY MARKET SHARES (30 JUNE 2020)

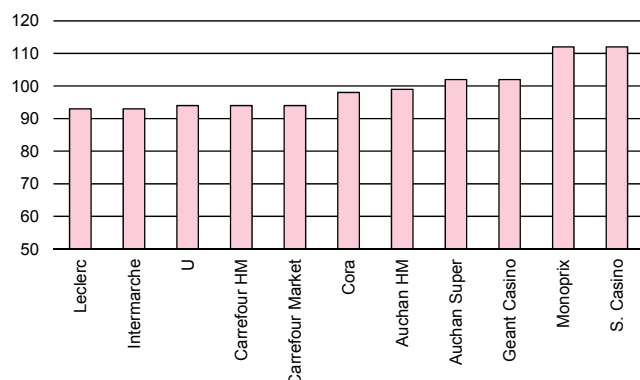


Source: Kantar Worldpanel, Statista, UniCredit Research

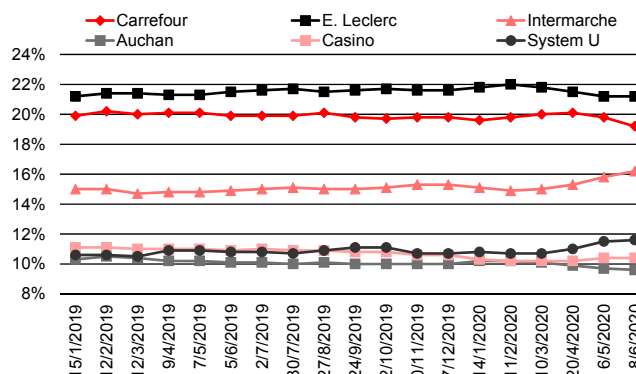
Carrefour

Research firm Kantar Worldpanel estimates that Carrefour's market share in France fell to 19.9% in 2019 (-40bp). This decline largely reflects Carrefour's significant price cuts in 2019, which rendered its hypermarkets nearly as competitive as those of independent retailers. Kantar Worldpanel estimates that Carrefour's market share was around 19% at the beginning of June 2020. Prices at Carrefour's hypermarkets are now close to those of independent retailers.

PRICE INDEX OF MAIN FRENCH BANNERS IN 2H19



SUPERMARKET MARKET SHARE IN FRANCE



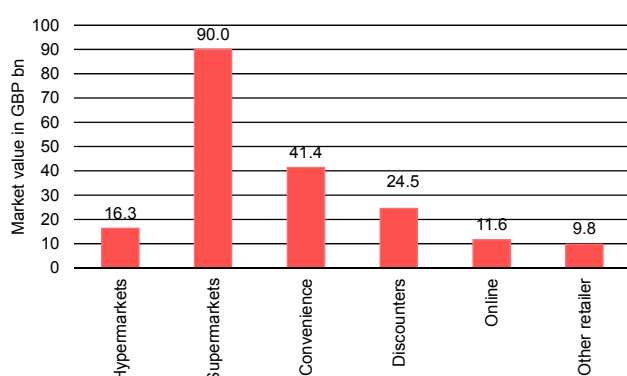
Source: Linéaires, Kantar World Panel, UniCredit Research

Regional perspective – UK

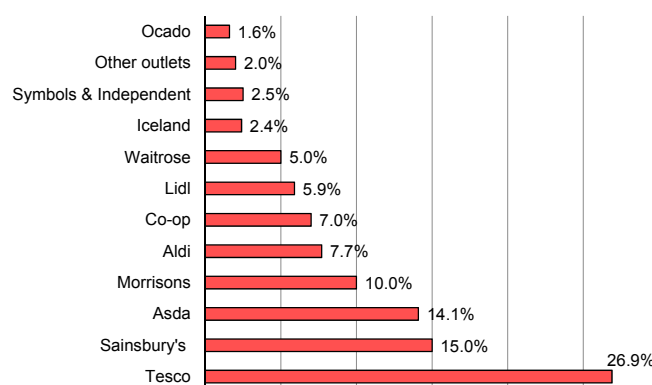
Food retail in UK

In 2019, the total value of grocery retailing in the UK came to approximately **GBP 193.6bn**. Of the five major sales channels, supermarkets had the largest share of the market in terms of value, with GBP 90bn. Supermarkets had more than twice the market share as the convenience channel, which is the second largest channel. A hypermarket combines a grocery with a department store and is therefore not strictly a pure grocer. Supermarkets and convenience stores have a few defining characteristics, with store size being the most measurable factor. Roughly 42,000 convenience stores were operating in the UK. A much smaller number of roughly 6,000 supermarkets and over 4,500 discounters supplied customers. Between January 2015 and May 2020, Aldi expanded its share of the grocery market from 4.9% to 7.7%.

MARKET VALUE OF GROCERY RETAIL IN THE UK



GROCERY MARKET SHARE (17 MAY 2020)

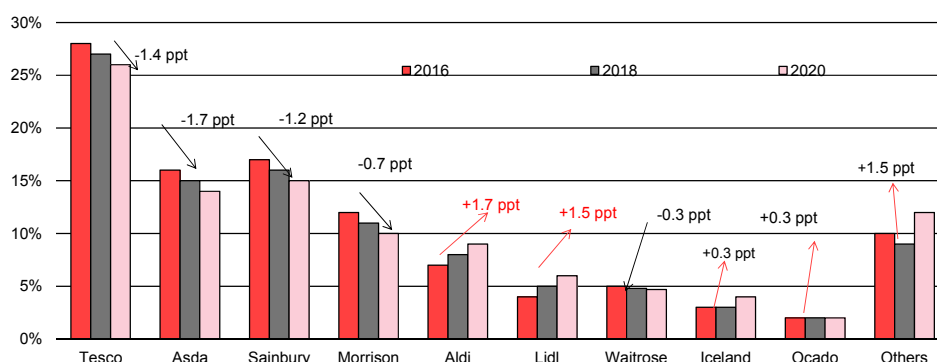


Source: Kantar Worldpanel, Statista, UniCredit Research

Discounters in UK

The UK industry has been characterized by a multi-year expansion of the German discounters Aldi and Lidl, which have increased their store numbers significantly from a low base. The discounters now have a combined market share of over 13%, greater than that of number four grocer, Morrisons, of around 10%. Nevertheless, Tesco retains a strong leadership position, with a share of around 27%, well ahead of the number two and three Sainsbury's and Asda (a subsidiary of Walmart).

UK GROCERS HAVE LOST MARKET SHARE TO GERMAN DISCOUNTERS



Source: Kantar Worldpanel (May 2020), Moody's, UniCredit Research

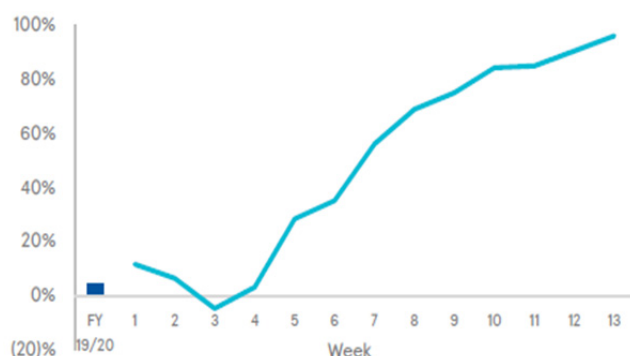
Impact of Coronavirus on discounters

Coronavirus has halted the growth trend of the German discounters, with shoppers opting for online deliveries or large weekly in-store purchases with large grocers such as Tesco, Sainsbury's, Asda and Morrisons during lockdown. According to data from market research company Kantar Worldpanel, Aldi and Lidl have both lost UK market share recently.

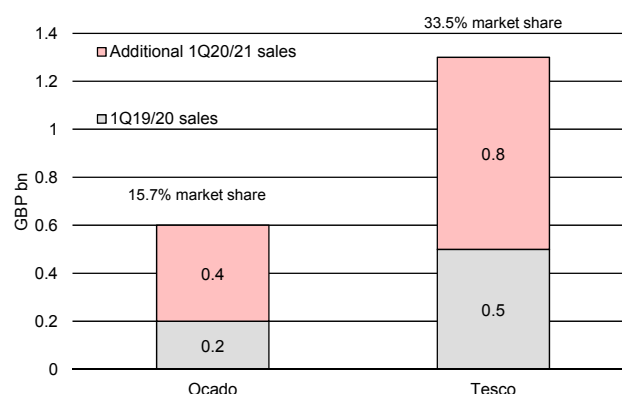
Online grocery in the UK

Coronavirus has supported online grocery sales. Tesco is well placed in this segment, given its leading position with a market share of around 35%. An important competitor is Amazon, with AmazonFresh and the online specialist Ocado Group.

TESCO: EXCEPTIONALLY STRONG ONLINE SALES GROWTH DURING CORONAVIRUS PANDEMIC



SIGNIFICANT INCREASE IN ONLINE SALES

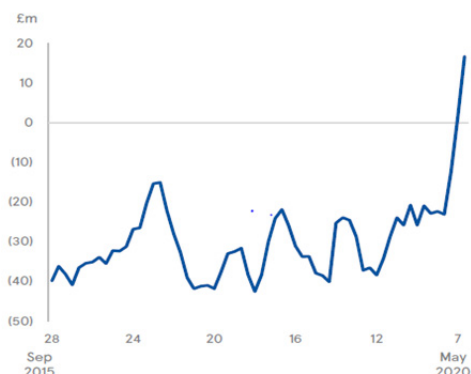


Source: 1Q20 presentation Tesco, UniCredit Research

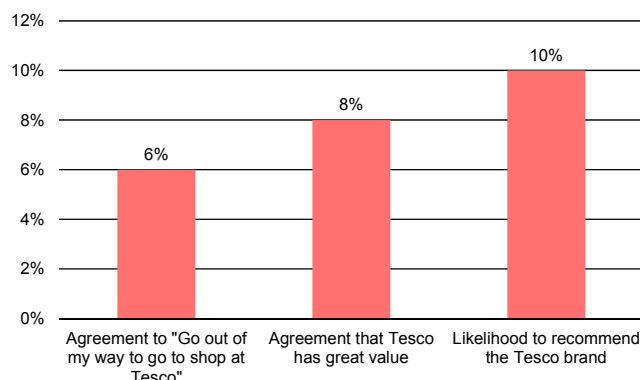
Tesco: "Aldi price match" campaign

On 26 June, Tesco announced that it was extending its campaign to match the prices of German discounter Aldi to around 500 of Aldi's near 1,600 product lines, including branded items. In our view, Tesco has scale and should benefit from its renewed focus on keeping prices and costs low, but smaller UK grocers will probably struggle.

CUSTOMERS SWITCHING FROM ALDI TO TESCO



ALDI PRICE MATCH IMPROVING CUSTOMER PERCEPTION*



*Survey by Hall & Partners; fieldwork dates 17 March to 1 April 2020, sample size: 1,297

Source: Tesco 1Q20 "A little help" presentation, UniCredit Research

Blocked merger between Sainsbury's and Asda

The May 2019 decision of the UK Competition and Markets Authority to block the proposed merger of Sainsbury's and Asda was credit positive for Tesco. Nevertheless, we assume that Walmart is still looking to sell Asda and a new owner could adopt aggressive strategies to boost market share. We anticipate that the German discounters will further increase their combined market share above 15% over the next couple of years.

Regional perspective – Germany

2019: increase of large supermarket chains

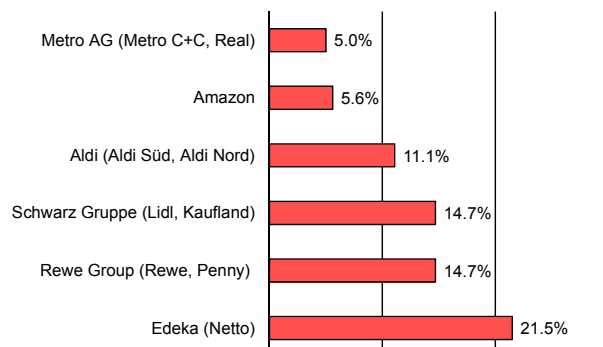
In 2019, in Germany's large supermarket chains increased their sales more than discounters. In 2019, the food retail market in Germany generated revenue of roughly EUR 125.3bn. According to a market study by GfK (Gesellschaft für Konsumforschung), Rewe and Edeka increased their turnover by around 3% in 2019. The discounters managed just a 0.9% increase. Consumers demand not only acceptable prices but also a pleasant shopping atmosphere and an attractive range of environmentally sustainable products, and supermarkets are better able deliver this. According to GfK, consumers bought fewer consumer goods but more often turned to higher-quality products. Younger consumers, in particular, are more interested in fresh, regional and manual production. Drugstores grew faster than supermarkets in 2019 (+4.6%).

Euromonitor (March 2020) highlighted that the key challenge for hypermarkets in Germany is a broader shift in the shopping behavior of consumers. Given that more and more Germans are living and working in cities, consumers are more pressed of time. Two of Germany's biggest players in the broader grocery market, Rewe and Edeka, also operate key hypermarket brands under the Rewe Center (Rewe) and E-Center and Marktkauf (Edeka) brands. While hypermarkets are not the most important sales channel for either company, having a presence in the hypermarket space supports the broader strategies. Kaufland, the hypermarket brand of the Schwarz Group, which also owns Lidl, continued to lead hypermarkets by a large margin. Metro sold its Real hypermarket business (closing 25 June 2020).

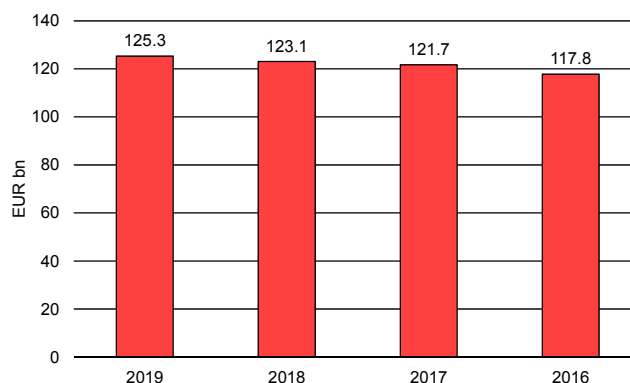
Discounters are very popular in Germany

In German food retail, discounters hold a 43% revenue share. Besides financial reasons, consumers may also shop at discounters because of a preference for certain food brands or simply that it is the only type of store available in the area. Aldi, Lidl and Netto were the leading discounter supermarkets, based on both purchase share among consumers and revenue. Aldi is the most popular discounter in Germany. The company, which operates under the Aldi Nord and Aldi Süd banners (in the north and south of Germany, respectively) has generated increasing revenue in recent years. (source: statista).

GERMANY: GROCERY MARKET SHARES 2019



REVENUE: FOOD RETAIL MARKET IN GERMANY 2019



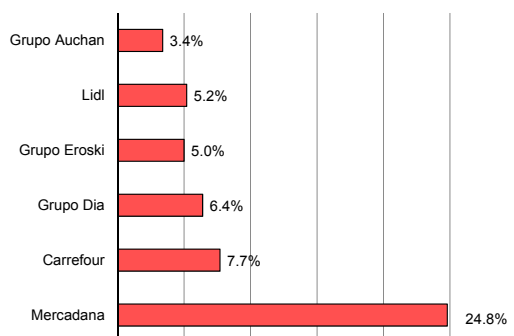
Source: statista, UniCredit Research

Regional perspective – Spain

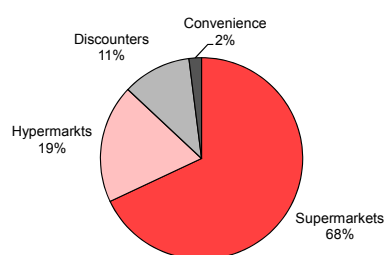
Spanish grocery retail market highly fragmented

The Spanish grocery retail market is highly fragmented, with a large number of smaller retailers. In 2018, Spanish food retail sales reached USD 112.4bn. Discounters have grown in value and importance in recent years as Spanish consumers have had a smaller disposable income and reined in their spending. The number of supermarkets in Spain has increased in recent years and stood at over 22,000 stores in 2018. The Spanish supermarket chain Mercadona significantly increased its number of stores over the last few years. The chain grew from 1,300 in 2010 to 1,600 in 2019. The sales value of the Spanish supermarket chain increased to EUR 22.26bn in 2018. In comparison to other countries, Spain has a much higher proportion of supermarkets and a lower proportion of hypermarkets and discounters. Carrefour strengthened its lead in hypermarkets in 2019 and further expanding its outlet network. It expanded its offer of fresh produce, including fish, meat and baked goods, as well as its organic ranges.

SPAIN: GROCERY MARKET SHARES (JUNE 2020)



FOOD RETAIL CHANNELS IN SPAIN



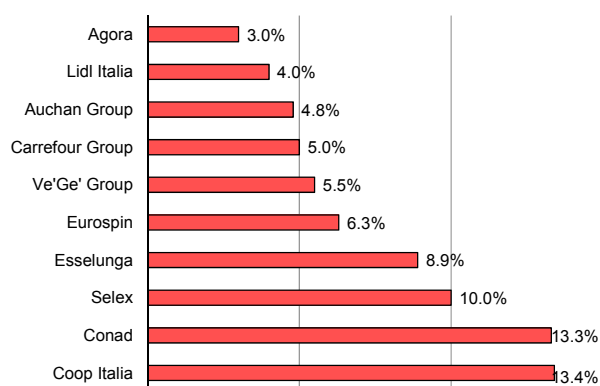
Source: Kantar Worldpanel, Euromonitor, UniCredit Research

Regional perspective – Italy

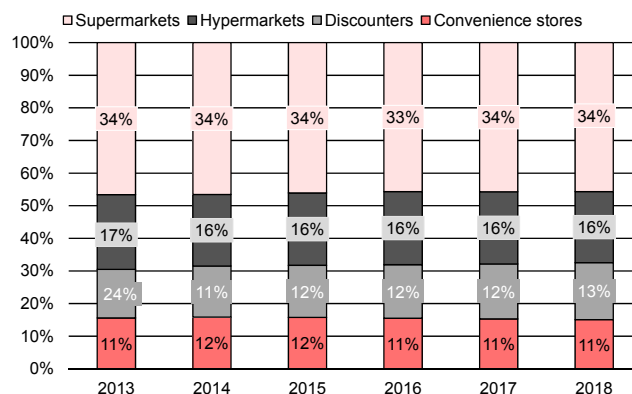
Italian food retail market
highly diversified

The Italian food retail market is highly diversified among hypermarkets, supermarkets, convenience stores, major discount stores, specialized stores and open-air markets. Italy's food retail market reached EUR 153.3bn in 2018. The majority of supermarkets are located in northern Italy (47%), followed by the south (29%), and then by the central region (24%). Coop and Conrad are the two main Italian supermarket chains. In 2019, they held market shares of 13.4% and 13.3%, respectively. Conrad was founded in 1962 as a consortium of food retailers gathered into a large cooperative. Coop Italia is a system of Italian consumers' cooperatives which operates the largest supermarket chain in Italy. The first cooperative shop was established in Turin in 1854. As Italian consumers increasingly turn to organic and natural products, all large grocery retailers from Coop and Conrad have started developing their own health and wellness private-label lines. Esselunga is one of the leading Italian food retailers, operating through a network of over 159 superstores and supermarkets in Lombardy, Tuscany, Emilia Romagna, Piedmont, Veneto, Liguria and Lazio. Esselunga was founded in 1957 with the opening of Italy's first supermarket, in Milan.

ITALY: GROCERY MARKET SHARES (2019)



MARKET SHARE EVOLUTION OF FOOD RETAIL IN ITALY



Source: statista, UniCredit Research

COVID-19 and the food retail market

Recovery of hypermarkets

Food retail is one of the few segments where sales are at a record high due to the coronavirus crisis. Food retail sales have shown a positive trend not only during the lockdown but also afterwards. Traffic in supermarket aisles is recovering progressively. However, the number of customers is still lower than before the lockdown, suggesting that part of the population is still limiting visits to supermarkets and hypermarkets. However, lower footfall has been offset by shoppers buying more in a single store visit. During the lockdown, retailers operating small stores benefitted the most. However, hypermarkets, with their offer as one-stop shop due to their broad product offering and safer shopping have since become more popular. We assume that the gap between the performance of hypermarkets and other formats will narrow.

Prices and safety important

During the coronavirus crisis, safety, as well as prices, is an increasingly important consideration for customers. Food retailers have communicated the safety measures they have implemented in their stores in order to reassure shoppers. Penetration of private labels in France has increased since the outbreak of COVID-19. This product category now accounts for more than 35% of FMCC (fast moving consumer consumables) sales in France. Some retailers have adopted the strategy of increasing sales of their private-labels products in recent years. Rushes on staples such as pasta, rice and flour observed in the first weeks of the lockdown are fading.

Home delivery

COVID-19 is supporting home delivery of groceries. Curfews and increasing fear of catching COVID-19, people are avoiding interaction as much as possible – and this includes trips to the supermarket. In France, Carrefour is well positioned to gain online share as it operates the second-largest “drive through” network in France and several meal-kit delivery companies. Casino is the owner of Cdiscount, the second-largest online retailer in France after Amazon.com. The UK grocery consumer tends to prefer click-and-collect services and technologies such as in-store scanning (source: Sainsbury's). Before the crisis started, about 7% of UK grocery sales were delivered to homes. Market leader Tesco had a 35% market share. Currently, however, delivery capacity in Germany is very limited, making it almost impossible for consumers to get their shopping delivered quickly. PWC estimates that the market share of home delivery in German food retail will increase from 1% to 3-4% in 2023 and continue to rise thereafter.

Supermarkets in the Future

Hot topic: digitalization

Digitization is advancing rapidly. Only in the supermarket does time seem to have stood still. But the impression is deceptive. The first steps towards digitalization have long since been taken in food retailing. The development will probably continue at a rapid pace. It is to be expected that in 2050 the supermarket will look and function differently in many respects than the supermarket we know today.

Supermarkets in 2050

Even in 2050 there will still be supermarkets. When buying groceries, many people do not want to do without the local retail shop. Especially for older people, daily shopping is important to maintain social contact. This role of supermarkets as places of encounter will be strengthened in the coming years. Many supermarkets already offer a café or lounge. Supermarket shopping will no longer serve only as a place to buy food and other products, but will become an experience in itself.

Technology perspective

Technology will take over large parts of the shopping. Today, when shopping in the supermarket, customers walk through long rows of shelves and select their goods. In all probability, this basic principle will not change significantly. Nevertheless, technology will be developed to assist people. Robots, for example, can help pack products. A supermarket was already presented at the Milan EXPO in 2015, in which so-called "YuMi" robots from ABB were used to pack apples. It can be assumed that this technology will continue to develop.

It is also conceivable that other systems with so-called drop-off scanners will establish themselves. The customer selects the products and places them in one of the drop-off scanners distributed throughout the supermarket. From there, the goods are transported to an area of the supermarket where they are packed for the customer. If desired, the goods can be delivered to the customer's home.

No more queues

No more queues. If current development continues, it is possible that in 2050 there will no longer be queues at the checkout in the supermarket. It is even likely that the checkout will disappear completely as the time-consuming payment methods of the present are replaced by faster alternatives. It is conceivable, for example, that the purchasing process will be automated via a mini chip when the goods are placed in the shopping trolley. When the customer leaves the store, the outstanding amount is simply debited from their account.

Amazon Go

Amazon Go – the first supermarket without cash registers in America. Here, the customer has the opportunity to shop without cash registers or cashiers. Computer vision technology and various sensors and cameras ensure a unique shopping experience without long queues. To be able to shop in such a store, users have to identify themselves with their Amazon-Go-App by QR-Code when entering the supermarket. As soon as the customer leaves the supermarket, the purchases are automatically debited from the Amazon customer account. The staff is primarily there to fill shelves and to receive goods when they are delivered. So far there are shops in Seattle, Chicago, San Francisco and New York. By 2021 there should be more than 3000 supermarkets of this type in the US.

Transparent and healthy

Transparent and healthy. Today's consumer watchdogs criticize insufficient labelling of food that prevents the customer from inform themselves about ingredients. Today, anyone who suffers from allergies or simply wants to avoid sugar, glutamate or other substances for health reasons must spend a lot of time to get the information. It is conceivable that things will be much more transparent in the supermarket in 2050. In 2050, it will probably be possible to access information on ingredients and ecological footprints via one's own smartphone or on special terminals in the supermarket. This will enable the customer to get a very accurate and comprehensive picture of the products on offer in the supermarket while shopping.

Other digitalization technologies

Other digital technologies likely to be employed in the supermarket of the future:

- **Indoor positioning system:** With the help of indoor positioning systems (IPS), customers can be guided through the store by a smartphone app and coded light signals. Before the customer is shown the best route through the supermarket, they must enter their shopping wishes. The app can then determine the customer's position and navigates them to the desired product using invisible light signals.
- **Digital signage and touchscreens:** More and more shops, including supermarkets, are using large screens for special offers and production information. Digital advertisements increase the length of stay and the probability of spontaneous and impulse purchases. Touchscreens directly on the shopping trolley are intended to serve as intelligent shopping aids. The "personal shopping assistant" shows the customer the way to the department and product they are looking for. In addition, the touch screens offer extensive information on individual products and special offers.

Sources: Lebensmittel Praxis, t3n.de, smart Light & living, Computerwoche, Ladenbau.de

ESG Perspective

Sustainability

In terms of environmental, social, and governance (ESG) risks, the retail sector has an average exposure to environmental risk compared to other industry sectors. The environmental risks for the retail sector are weighted towards its exposure to both the direct and indirect impact of climate change and emissions and the use of plastics. Emissions regulations are a long-term environmental risk as the complexity of logistics has increased for most retailers. This includes tighter regulation of greenhouse gas emissions and the cost of complying with them, as well as their impact on optimal customer delivery options. We also think future regulations pose a risk, such as reducing the use of plastic packaging for consumer products. We assume that COVID-19 will delay corporate commitments to reducing the use of plastics in the food retail sector. This is partly due to cost considerations but more due to consumer demand prioritizing safety.

Social risk is average for the retail sector compared to other industry sectors. Social risks and opportunities intersect when retailers address consumer preferences for rapid delivery, price transparency, product traceability and increased focus on clear labeling in diverse markets.

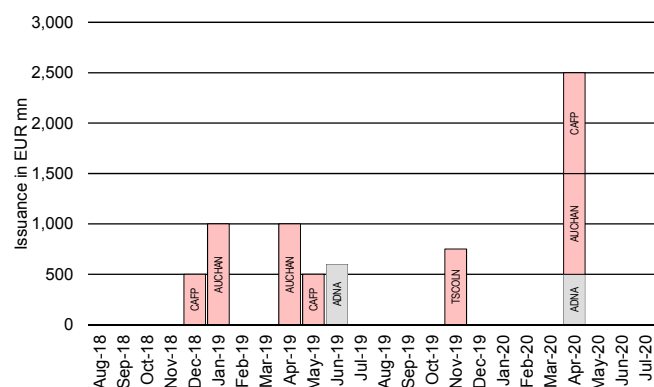
Primary Markets in Retail

New issuance and redemptions in 2020

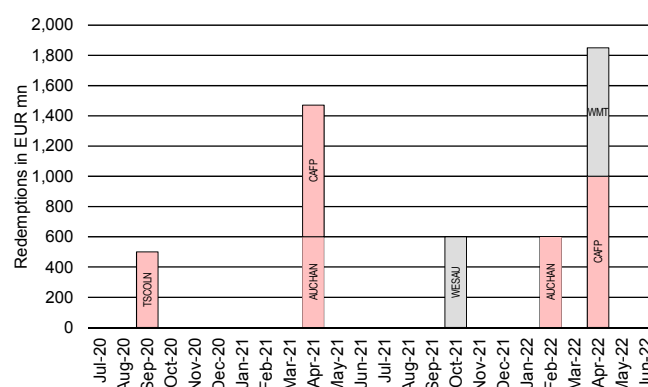
In 2020-22, we expect more issuance from retail companies. In the iBoxx Retail sector, EUR 3.0bn in bonds will mature in 2020, EUR 2.1bn in 2021 and EUR 3.1bn in 2022. We estimate new issuance of EUR 4bn in 2021 and 2022, in line with the 2019 level of EUR 3.85bn. In 2020, Ahold (EUR 500mn), Carrefour (EUR 1bn) and Auchan (EUR 1bn) have issued bonds.

On 10 July 2020, Auchan launched a tender offer to repurchase the following notes: AUCHAN 1.75% 23/4/21 (EUR 600mn), AUCHAN 2.375% 12/12/22 (EUR 750mn), AUCHAN 0.625% 7/2/22 (EUR 600mn) and AUCHAN 2.25% 6/4/23 (EUR 700mn). The tender offer started on 10 July and will expire on 20 July. The settlement is expected on 23 July. On 10 July, Auchan issued the EUR 750mn AUCHAN 3.25% 23/7/27. The intention of all of these measures is to extend its debt maturity profile.

NEW ISSUANCE IN IBOXX IG RETAIL *



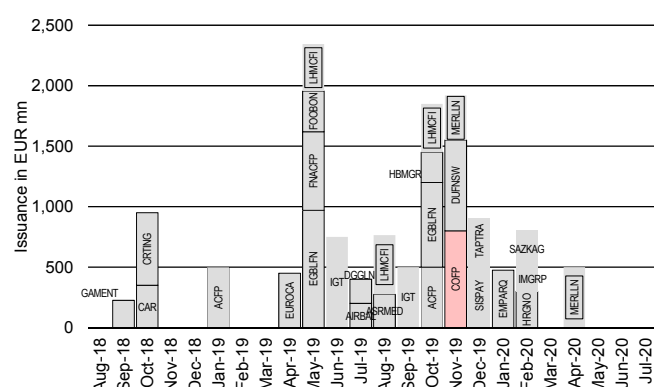
REDEMPTIONS IBOXX IG RETAIL *



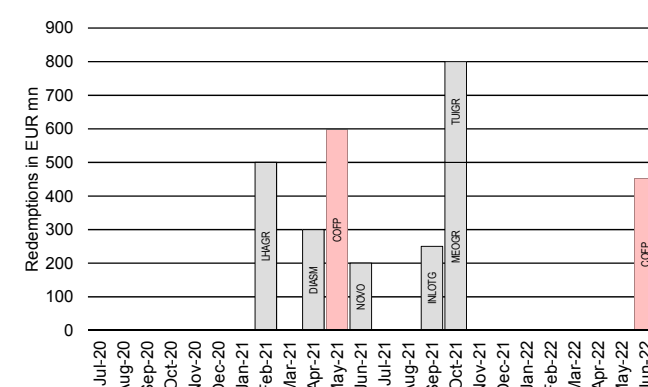
*highlighted in red: UniCredit research Food Retail coverage

Source: iBoxx, Bloomberg, UniCredit Research

NEW ISSUANCE IN IBOXX HY CONSUMER SERVICES*



REDEMPTIONS IBOXX HY CONSUMER SERVICES*



*highlighted in red: UniCredit Research Food Retail coverage

Source: iBoxx, Bloomberg, UniCredit Research

Recommendation overview

General remarks

General remarks: According to our strategists (please see: Euro Credit Pilot, 9 July 2020) we expect the global and European economy to continue to recover in the coming months, although the recovery will likely be gradual rather than V-shaped. Moreover, there is still the lingering risk of a second wave of COVID-19 later this year, as the number of infections in various countries begins to rise again. This implies that risky assets will continue to face a shaky environment in 3Q, although European credit – feeling the support from extraordinary monetary and fiscal policies – looks set to perform fairly well.

Our sector recommendations reflect our view that the European credit market remains driven mainly by the extraordinary measures taken by ECB in the form of CSPP and PEPP purchases, which reduce the scope for sector differentiation. We have a market weight recommendation on the retail sector.

Recommendation overview

There are three IG and one HY issuers in our food retail coverage. We have an overweight recommendation on Tesco and are changing our recommendation on Auchan from restricted to overweight. We are changing our recommendation on Carrefour to marketweight from restricted. We have a hold recommendation on Casino.

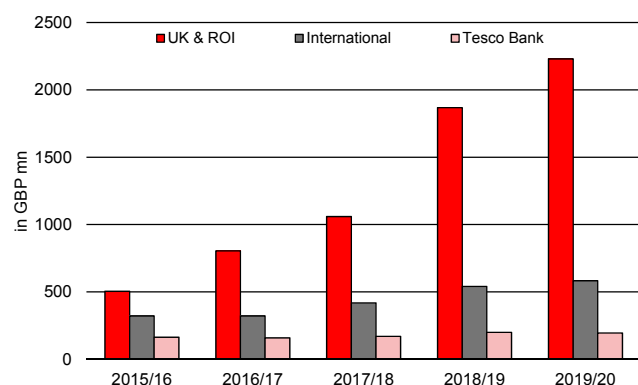
Tesco

(Baa3s/BBB-s/BBB-s)

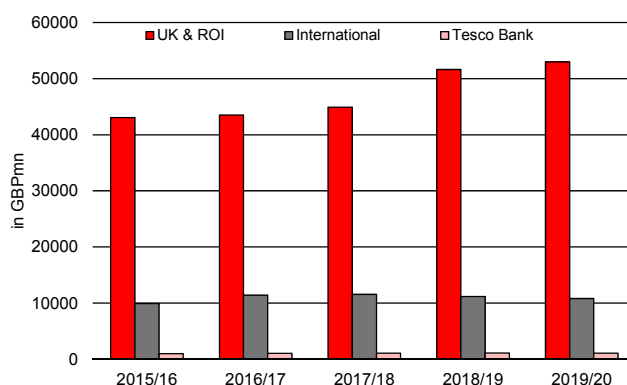
We have an overweight recommendation on Tesco and assume that the deleveraging credit story will continue to be supported by recent disposals. Tesco is the UK's leading food retailer. The company's share of the UK grocery market is around 27%. Tesco's leading market position in the UK is supported by its large network of supermarket stores and its top position in the growing online and convenience store segments, with a network of over 2,650 Tesco stores in the UK (plus nearly 800 One Stop branded convenience stores).

The company's return to an investment-grade rating has been supported by continued deleveraging and improvement in credit metrics despite the competitive environment in the UK grocery market. In its 1Q20/21 (26 June) trading update, Tesco reiterated its expectations for flat retail EBIT this year despite COVID costs but indicated that it expects losses for the bank of between GBP 175mn and GBP 200mn. On 9 March 2020, Tesco announced the disposal of its business in Thailand and Malaysia for an EV of USD 10.6bn on a cash and debt-free basis. Management highlighted that it will return GBP 5bn to shareholders via a special dividend. In addition, Tesco wants to reduce its indebtedness with a GBP 2.5bn pension contribution that is expected to eliminate the current funding deficit and significantly reduce the prospect of having to make further pension deficit contributions in the future. On 18 June, Tesco announced that it is selling 301 of its 329 stores in Poland, including its distribution centers. In our view, it is a good strategic step due to tough competition and negligible EBITDA contribution. Because Tesco plans to use the proceeds from the Polish sale for general corporate purposes, we do not expect any change in gross leverage. We estimate that the disposal of the Asian business will reduce Tesco's adjusted debt/EBITDA by 0.3-0.4x (FY19/20: adjusted gross leverage: 3.9x). At the same time, the group has also signaled its commitment to investment-grade ratings by tightening its leverage target to around 2.5x, the lower end of its previous 2.5-3.0x range (FY19/20: 3.1x reported).

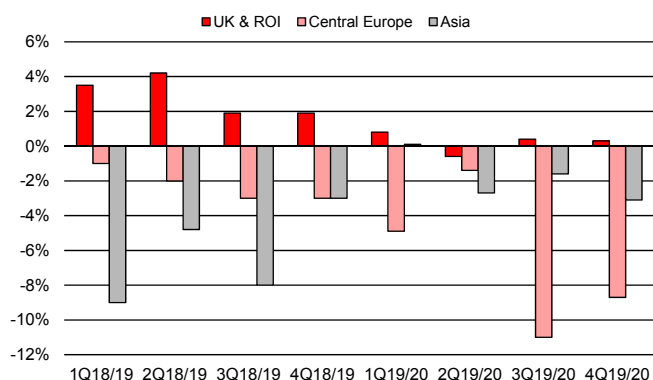
TESCO: GROUP OPERATING PROFIT



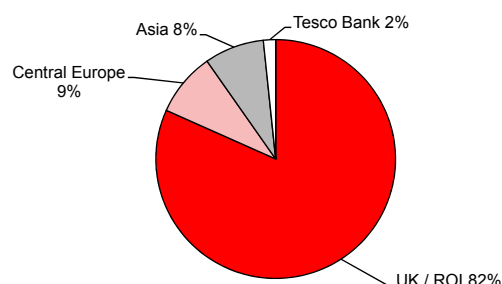
TESCO: GROUP REVENUE



TESCO: LIKE-FOR-LIKE SALES PERFORMANCE



TESCO: SALES SPLIT 2019/20



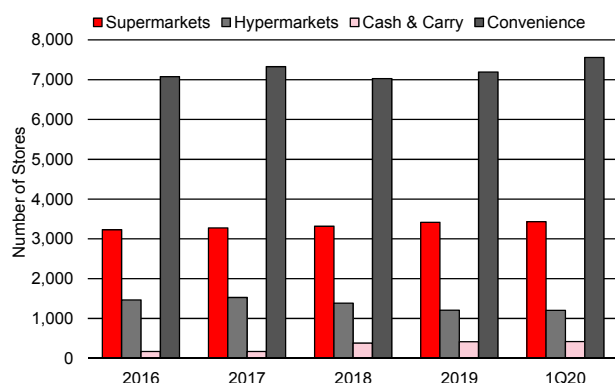
Source: Tesco annual reports, UniCredit Research

Carrefour
(Baa1n/BBBs/-)

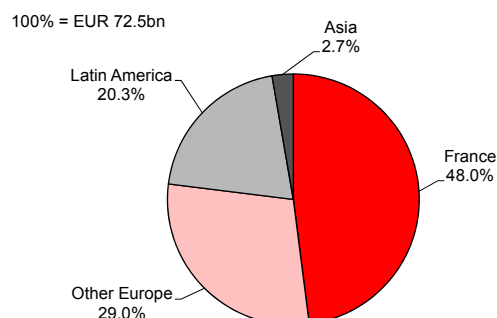
We are changing our recommendation on Carrefour from restricted to marketweight mainly due to the trading perspective. With current CAFR spread levels we see only limited further tightening potential in comparison to its competitors. With EUR 72bn revenue in 2019, Carrefour is one of the largest food retailers worldwide, after Walmart and Kroger, but ahead of Tesco. With a market share of 20% in 2019, Carrefour is the second-largest retailer after Leclerc in France, a region that accounted for 48% of its 2019 revenue. Hypermarkets accounted for 52% of its French revenue in 2019. Food sales account for about 80% of group revenue, which is credit positive.

Facing increasingly difficult market conditions, Carrefour has embarked on a far-reaching transformation plan, Carrefour 2022, which we believe is starting to yield positive results. The group has lowered its prices, reduced its product offering and increased sales of private-label products, among other initiatives. It is also cutting its costs, with EUR 1,960mn of savings achieved since 2017, reducing selling areas and opening new convenience stores. As a result, recurring EBIT grew by EUR 150mn to EUR 2,088mn in 2019, and we expect it to keep growing in the coming years.

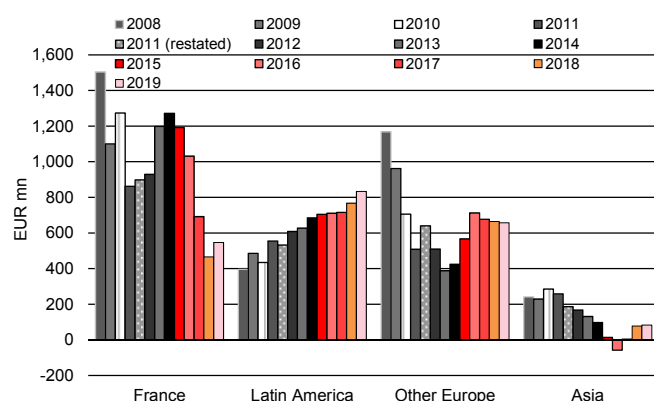
CARREFOUR: NUMBER OF STORES



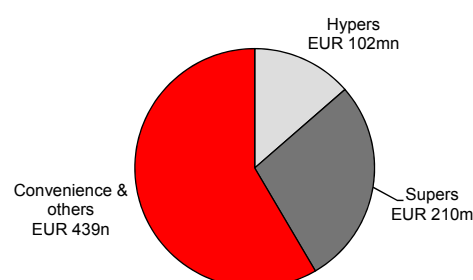
CARREFOUR: NET SALES (2019)



CARREFOUR: OPERATING INCOME BY REGION



CARREFOUR: EBIT BY FORMAT IN FRANCE 2019



Source: Carrefour annual reports, UniCredit Research

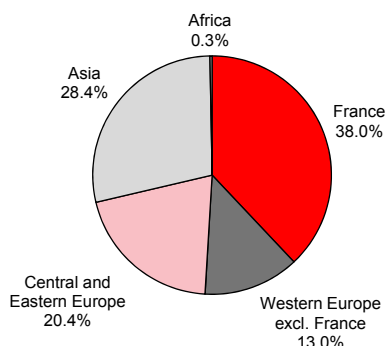
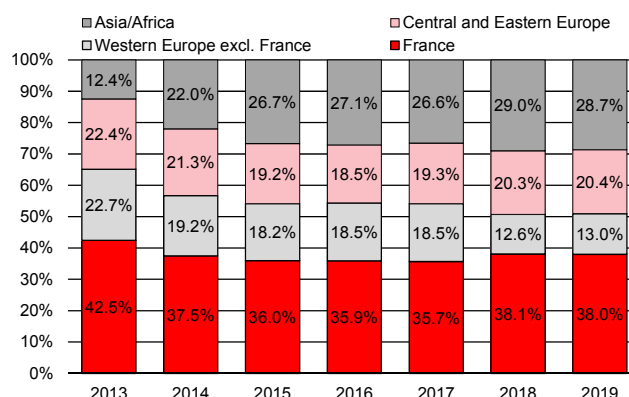
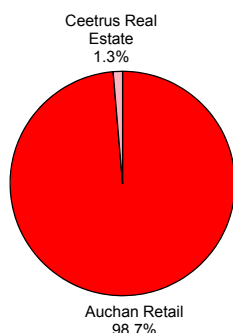
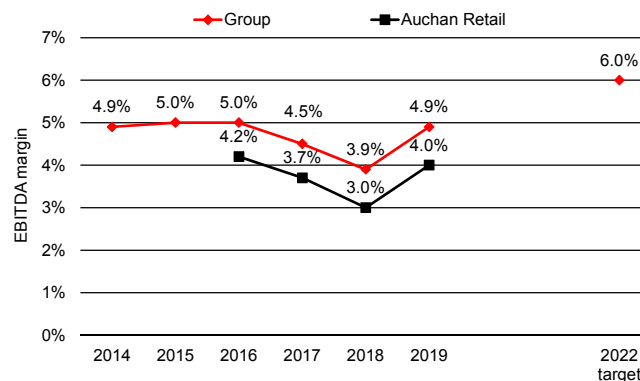
Auchan

(-/BBB-n/-)

France-based Auchan Holding S.A. (-/BBB-n/-) brings together two companies with complementary businesses (Auchan Retail, Ceetrus). We are changing our recommendation on Auchan to overweight from restricted. We assume that the company will be able to defend its IG rating, despite the execution risk of its ongoing restructuring program. In our view, the spread levels of current AUCHAN senior issues reflect a worst case that the company is unable to quickly reduce net leverage.

Auchan Retail is an international food retailer incorporated in France with operations in 14 countries across Europe, Asia and Africa. Ceetrus is a property-management firm. It manages 295 sites in 10 countries (the fair value of its assets is greater than EUR 8bn), and this accounts for 1.3% of group revenue. Auchan Retail is the sixth-largest retailer in France.

In 2019, Auchan announced a EUR 1.1bn cost-saving plan for its retail operations, corresponding to a targeted reported EBITDA margin of 6% in 2022 against 3% reported in 2018. We assume that this transformation plan will be associated with large one-off expenses of EUR 700mn to EUR 800mn spanning the next three years, with the majority for restructuring but also to incorporate investments aimed at reducing the firm's cost base.

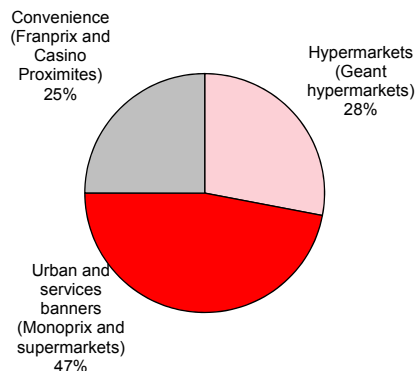
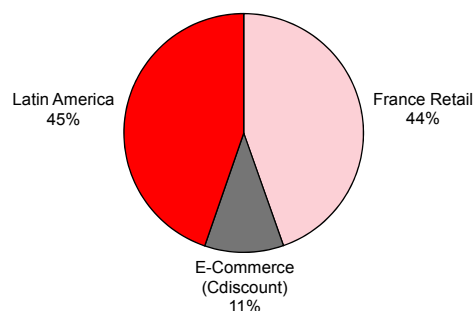
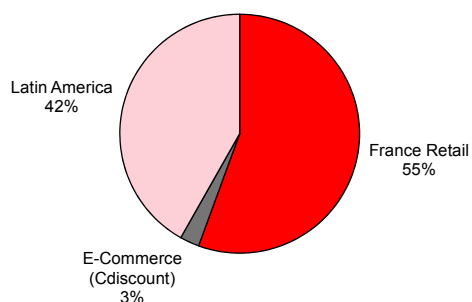
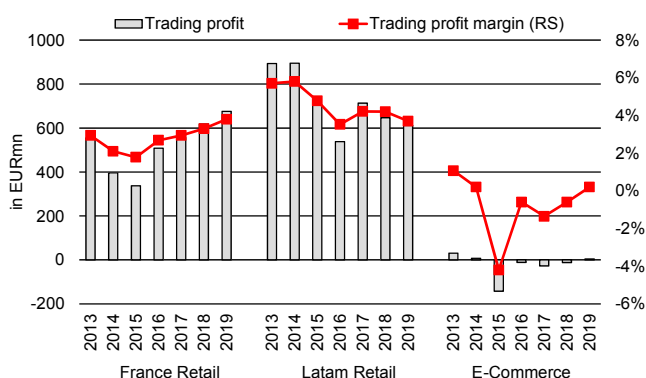
AUCHAN: GEOGRAPHIC REVENUE SPLIT 2019

AUCHAN: GEOGRAPHIC REVENUE SPLIT (2013-19)

AUCHAN: REVENUE 2019

AUCHAN: CURRENT OPERATING PROFIT 2019


Source: Auchan, UniCredit Research

Casino
(B2n/Bn/-):

We confirm our hold recommendation on Casino. Casino remains the most highly leveraged company in the food retail sector in our coverage. However, we don't anticipate a negative rating action by S&P or Moody's, both of which have a negative outlook on Casino.

The company has benefitted from the lockdown in France due to its exposure to smaller formats. However, the tough macro environment is not supportive for the asset disposals. However, Casino remained in a solid liquidity position in France as of 31 March with over EUR 2.9bn cash and undrawn credit lines. Casino has drawn EUR 350mn of its confirmed credit lines. With 6.77x gross debt/EBTDA (France + e-commerce), there was ample headroom to the 7.75x threshold under its 1Q20 covenants (31 March). Casino highlighted that covenant metrics tested of the end of March 2020 do not yet reflect the impact of the Leader Price and Vindemia disposals which should have a positive impact of 1.0x on leverage. We assume that the company will use the proceeds from the sale of Leader Price to redeem outstanding 2021 and 2022 senior issues.

**CASINO: BREAKDOWN OF FRANCE RETAIL
NET SALES BY FORMAT (2019)**

CASINO: GROUP NET SALES (2019)

**CASINO: EBITDA 2019 – PARTLY OWNED, BUT FULLY
CONSOLIDATED LATIN AMERICA GENERATED 42% OF
CASINO'S EBITDA**

**CASINO:
TRADING PROFIT AND TRADING PROFIT MARGIN**


Source: Casino, UniCredit Research

COVID-19: rating-agency actions

No changes in rating or outlook by Moody's, S&P or Fitch

Since the beginning of the coronavirus crisis there has been no rating action or revisions to the outlooks of food retailers Auchan, Carrefour, Casino or Tesco. Moody's (6 July 2020) highlighted that sales of European grocery retailers will remain high as long as coronavirus-related travel restrictions and social distancing measures restrict the ability of customers to eat outside their home, which is credit positive. However, the benefit will be short-lived because grocers face a significant economic slowdown in the next 12-18 months. This is in contrast to European non-food retailers, which have been severely hit by the coronavirus outbreak because stores were closed as many countries restricted movement to curb the spread of the virus. This resulted in weak earnings and cash generation for many nonessential retailers. Moody's downgraded 13 of the 35 public and privately rated retailers in Europe in March and April (but no food retailer in our coverage).

Fitch (17 April) highlighted that the profitability of many retailers will be diluted by extra expenses and a greater share of online sales with structurally lower margins. Fitch expects only a mild impact on food retailers' credit profiles as a result of the coronavirus fallout and projects resilient performance during this period and beyond.

Peer group Analysis

Company	Auchan	Carrefour	Tesco	M&S	Casino
Rating	(-/BBB-n/-)	(Baa1n/BBBs/-)	(Baa3s/BBB-s/BBB-s)	(Ba1n/BB+wn)	(B2n/Bn/-)
Country	France	France	UK	UK	France
Business activities (% of sales)	98.7% food retail, property management activity (Ceetrus, shopping centers) 1.3% of revenue	80% food retail, operates hypermarkets (50% of sales), supermarkets, proximity formats and cash-and-carry stores	Retail and associated activities 98.3%, Tesco Bank 1.7%	M&S derives 63% of its UK revenue from the less-profitable but stable food segment and 37% of revenue from its clothing and household segment (based on fiscal 2019 UK sales)	Retail and e-commerce Casino's store portfolio is focused on its Proximity (62% of sales), Hypermarket (25%) and Hard discount (Franprix 8%, Leader Price 12%) segments Proximity includes Convenience & Other 13%, Casino Supermarkets 17%, Monoprix 24%
Regional perspective (% of sales)	38.0% of revenue is generated in France; 13% in western Europe, excluding France (Spain, Portugal and Luxembourg); 20% in eastern Europe (Poland, Hungary, Romania, Ukraine, Russia) and 29% in Asia (China Taiwan) and Africa (Senegal <1%).	France 48%, Europe 29%, Latin America 20%, Asia 3%	80.8% UK & ROI, rest of Europe	90% UK	France Retail 52%, Latin American Retail 43% ecommerce 5%. Casino fully consolidates its Latin American subsidiaries despite owning only part of their shares (33.1% of Grupo Pão de Açúcar, 55.3% of Almacenes Éxito S.A.). Most of Casino's Latin American earnings come from Brazil (Brazil 73%, Colombia 20%, Uruguay 5%, Argentina 2%)
Year	2019	2019	2019 (ending 28 February 2019)	2019 (ending 31 March 2019)	2019
Sales	EUR 45,803mn (Auchan Retail) EUR 46,415mn (Auchan Holding)	EUR 72,450mn	EUR 63.9bn	EUR 12.05bn	EUR 34.6bn
change yoy	-1.4% -1.6%	+3.1% like-for-like growth	+11.2%	stable yoy	+0.9% (+4.2% at constant exchange rates)
EBITDA	EUR 1,831mn (Auchan Retail) EUR 2,260mn (Auchan Holding)	EUR 3,485mn	EUR 3,503mn	EUR 1,474mn	EUR 2,640mn (-1.1%; +0.6% at constant exchange rates)
EBITDA margin	4.0%(Auchan Retail) 4.9% (Auchan Holding)	4.8%	5.5%	13.6%	7.6%
Adjusted net leverage	2.5x (FY18: 3.1x), Chinese operations fully consolidated	2.8x (FY18: 3.3x)	3.2x (FY18 3.6x)	3.1x (FY18 3.1x)	5.6x FY19 (FY18 4.2x)
Ownership structure	Mulliez family (around 95% through Association Familiale Mulliez), remainder is owned by eligible employees	Moulin family 11.1% Arnault 8.2% Diniz 7.8%	Norges Bank 7.85%, Blackrock 5.54%, Vanguard Group 4.97%	Listed on the London Stock Exchange	Rallye 52.4% (61.7% of voting rights) Versa Equity 7%

Source: company data, rating agencies, UniCredit Research

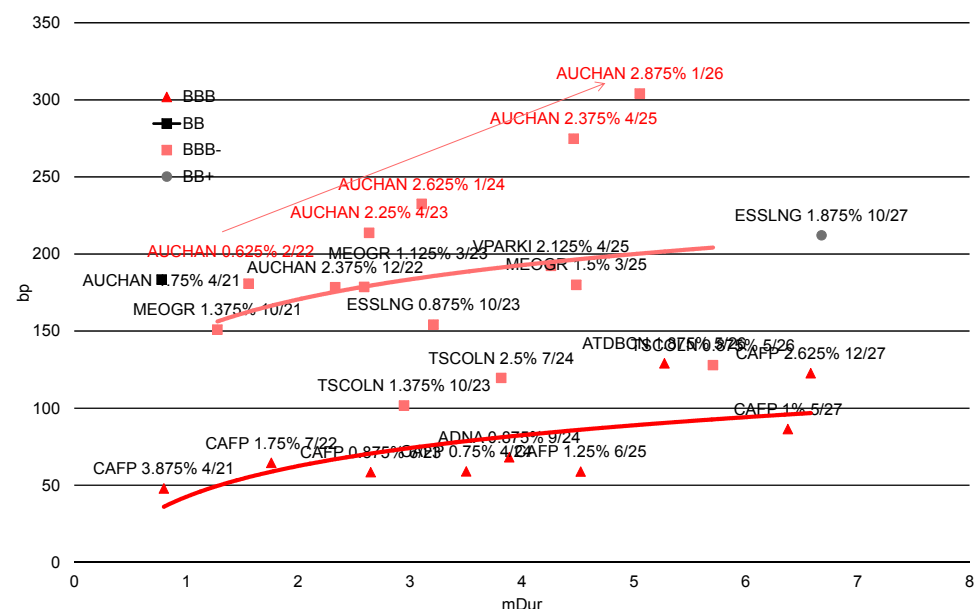
Overview: liquidity, 1Q20 results and outlook

Company	Cash	Other available liquidity	1Q20 review – key financials	COVID-19 comment	Outlook/strategy
Auchan (-/BBB-n/-)	31 December 2019: cash on balance of EUR 3.67bn (about EUR 2bn, excluding Sun Art)	Availability under committed facilities of more than 12 months of EUR 2.7bn. This compares to short-term debt of EUR 1.3bn (excluding lease liabilities), including EUR 350mn of bonds (due in March 2020).		<ol style="list-style-type: none"> 1. We assume that the COVID-19 pandemic is likely to have mixed effects on the group's operating performance but not translate to liquidity pressures. 2. We believe Ceetrus's earnings are likely to be affected in 2020, since it has already agreed to delay some rent payments. 	<p>Management is sticking to its target of remaining investment grade and reducing its debt position further.</p> <p>Several successful steps to improve Auchan's credit metrics through its restructuring program "Renaissance" were already introduced in 2019. Its 2022 restructuring plan includes a reported 6% EBITDA margin target for Auchan Retail translating to about EUR 1.1bn of cost savings compared to 2018.</p>
Carrefour (Baa1n/BBBs/-)		<p>1Q20 release: Carrefour Brazil obtained bank financing for BRL 1.5bn over two and three years</p> <p>Two credit facilities in the amount of EUR 3.9bn with a maturity in 2026, which have not been drawn</p>	<p>1Q20 sales release: like-for-like: +7.8% (France: +4.3%, Europe +6.1%, Latin America +17.1%), Asia +6.0%)</p> <p>Food e-commerce increased: +45%</p> <p>1Q20 in France:</p> <p>Hypermarkets +0.9% like-for-like,</p> <p>Supermarkets: +8.1% like-for-like</p> <p>Convenience: +11.0% like-for-like</p>	<p>CEO believes that after the lockdown and assuming there will be a recession, hypermarkets will have a role to play as they have attractive prices and offer one-stop shopping and a safer experience</p>	<p>Carrefour 2022 strategic plan:</p> <ol style="list-style-type: none"> 1. EUR 2.8bn cost reduction plan 2. EUR 4.2bn of food e-commerce sales in 2022 3. EUR 4.8bn sales in organic products 4. EUR 300mn additional disposals of non-strategic real estate assets
Casino (B2n/Bn/-)	31 March 2020: EUR 962mn of cash and cash equivalents	<p>31 March 2020:</p> <ol style="list-style-type: none"> 1. EUR 1.98bn of undrawn, confirmed credit lines. 2. Following particularly strong sales performance in March, Groupe Casino's working capital improved yoy. 3. EUR 350mn of confirmed credit lines had been drawn, and EUR 60mn of commercial paper was outstanding 4. In France, EUR 257mn of March 2020 bonds were redeemed. 	<p>1Q20 sales results:</p> <p>Net sales:</p> <ol style="list-style-type: none"> 1. 7.9% organic growth 2. Same-store base: +6.4%(France: +5.8%), Latin America: +.5% 3. E-commerce: +43% 	<p>The company has benefitted significantly from the lockdown in France due to its exposure to smaller formats</p>	<p>The EUR 2 bn divestment plan fits into Casino's broader strategy of focusing on the most promising segments of food retail; namely convenience, proximity and online.</p> <p>While this strategy will enable the group to trim its portfolio of non-profitable stores, notably in the hypermarket and discount segments, it will also reduce Casino's sales in France</p>
Tesco	FY19/20 (ending 29 February 2020): GBP 3.4bn	<p>FY19/20 ending 29 February 29:</p> <p>GBP 3bn of committed facilities undrawn</p> <p>Retail free cash flow: GBP 2bn</p>	<p>1Q20/21 trading update:</p> <p>Group sales increased by 8% (like-for-like: +7.9%)</p> <p>Regional perspective:</p> <p>Total sales UK & ROI +9.2%, Central Europe 3.3%, Tesco Bank (-26.5%)</p>	<ol style="list-style-type: none"> 1. Boost in online sales and convenience formats (+10% lfl) 2. promotion declined from 28% to 14% of sales 3. clothing remained weak (-20% yoy) but general merchandise started to recover 4. Tesco bank sales declined 26.5%, the guidance revised downwards from a small loss of between GBP 175mn and GBP 200mn 	<p>Outlook for 2020/21 (publication of 1Q20/21 trading update):</p> <p>Tesco reiterated its expectations for flat retail EBIT this year despite COVID 19 costs but expects bigger losses for the bank of between GBP 175mn and GBP 200mn</p> <p>Sale of business in Thailand and Malaysia for an EV 10.6bn (12.5x EV/EBITDA), closing expected 2H20</p> <p>Use of proceeds: 1. GBP 2.5bn to eliminate pension funding deficit 2. GBP 5bn special dividend 3. GBP 0.5bn for general purposes</p>

Source: company reports, UniCredit Research

Trading ideas

SNAPSHOT OF EUROPEAN FOOD RETAILERS (BBB, BB, BBB-, BB+) RATED

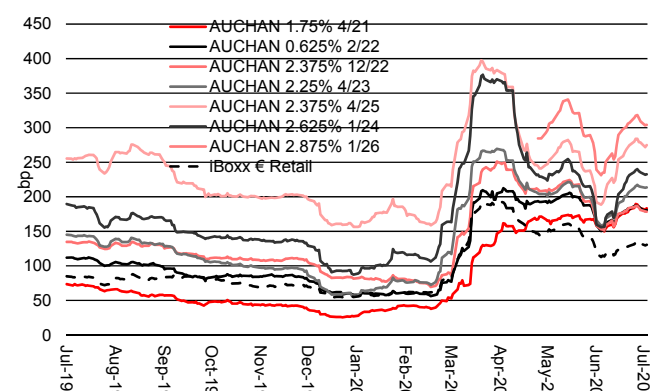


Source: iBoxx, UniCredit Research

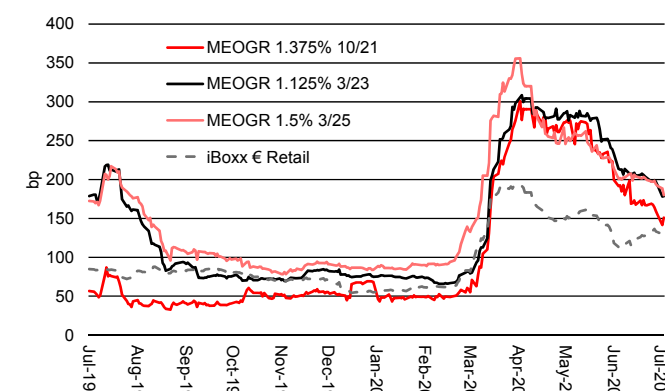
Trading ideas

1. We recommend a switch from AUCHAN 2.25% 6/23 to AUCHAN 2.875% 1/26 for a one-point lower cash price, higher YTW and higher Z-spread.
2. We prefer AUCHAN (BBB-) senior issues in comparison to MEOGR (BBB-) senior issues.

AUCHAN SENIOR ISSUES (IN EUR)



MEOGR SENIOR ISSUES (IN EUR)

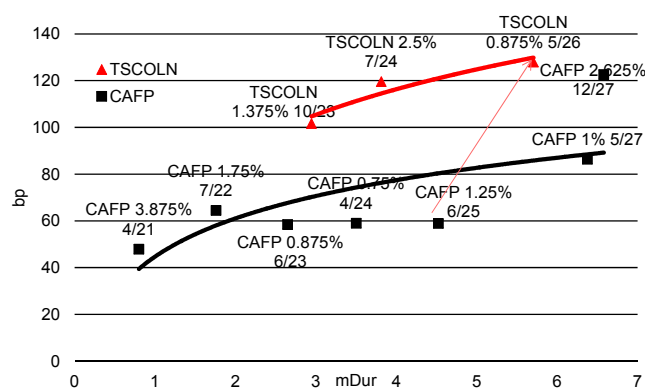


Source: iBoxx, UniCredit Research

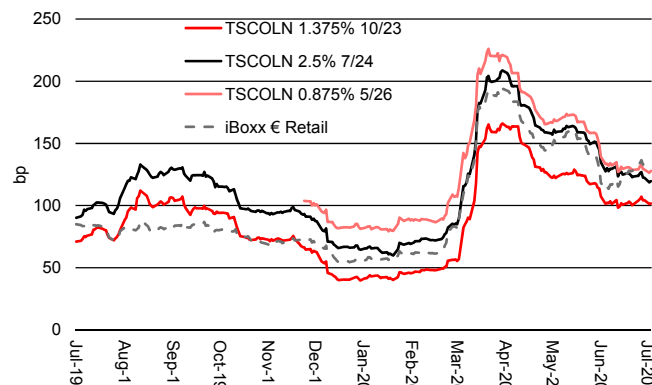
Trading ideas

3. We recommend a switch from TSCOLN 1.375% 10/23 to TSCOLN 0.875% 5/26.
4. We recommend a switch from CAFP 1.25% 6/25 to TSCOLN 0.875% 5/26.

TSCOLN, CAFP SENIOR ISSUES (EUR)



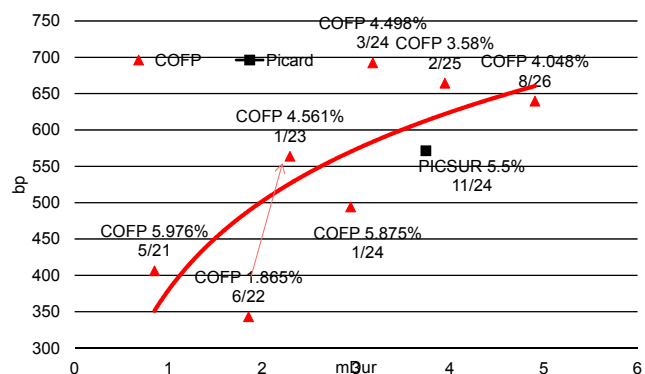
PERFORMANCE TSCOLN SENIOR ISSUES (EUR)



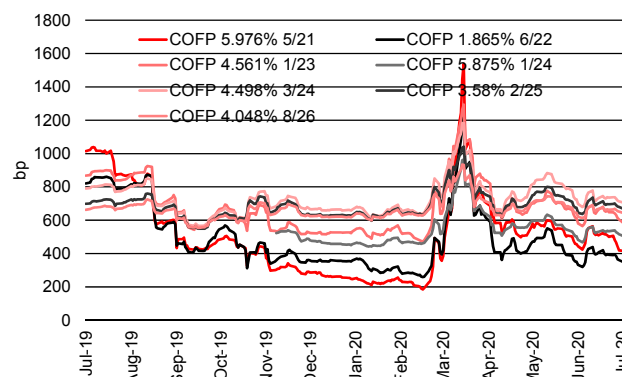
Source: iBoxx, UniCredit Research

5. We recommend a switch from COFP 1.865% 6/22 to COFP 4.561% 1/23.

COFP SENIOR ISSUES VERSUS OTHER HY FOOD RETAILER



PERFORMANCE OF CFP SENIOR ISSUES

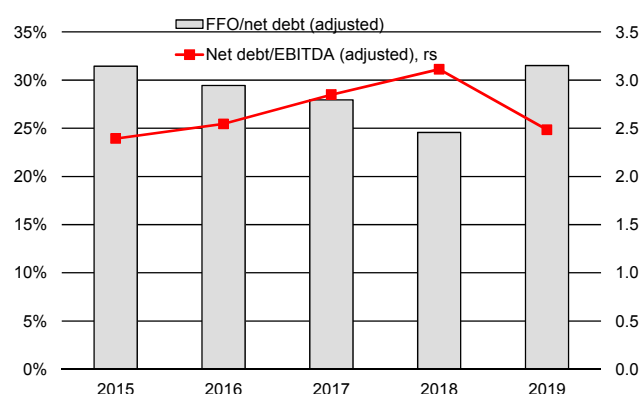


Source: iBoxx, UniCredit Research

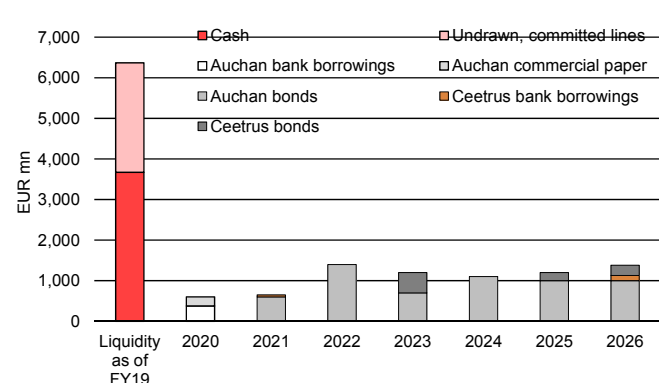
Financial Statistics – Auchan

EUR mn	2015	2016	2017	2018	2019
Sales	53,814	52,820	52,669	47,169	46,415
EBIT margin adj. (UniCredit)	2.7%	2.7%	2.2%	1.9%	2.3%
EBITDA company-reported	2,678	2,646	2,373	2,084	2,913
EBITDA margin	5.0%	5.0%	4.5%	4.4%	6.3%
Net income	718	803	509	-946	-1,255
Funds from operations (FFO)	2,112	2,088	2,023	1,706	2,287
Operating cash flow	2,193	2,016	2,117	1,632	1,835
Free cash flow rep. (after capex)	139	313	417	-367	654
Dividend payment	-198	-351	-537	-313	-120
Retained cash flow (RCF)	1,914	1,737	1,486	1,393	2,167
Acquisitions/disposals	229	155	-18	-444	442
Share buybacks/issues	-129	-268	-50	-251	-196
Total debt, excluding credit activity	6,842	6,887	7,399	8,095	10,807
Net debt, excluding credit activity	4,171	4,506	4,780	4,675	7,133
Adj. for pensions	179	200	176	165	124
Adj. for operating leases and others	3,798	3,749	3,636	3,799	0
Net debt adj. (UniCredit)	8,148	8,455	8,592	8,639	7,257

DEBT LEVERAGE



DEBT MATURITY PROFILE (31 DECEMBER 2019)



CREDIT METRICS AUCHAN (UNICREDIT ADJUSTMENTS)

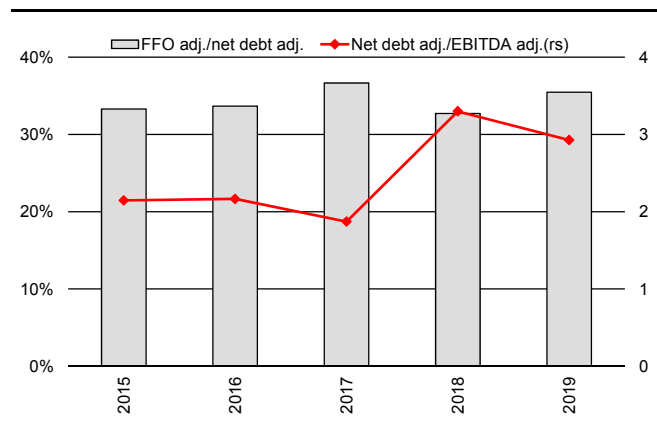
	2015	2016	2017	2018	2019
EBIT net interest cover adj.	3.4	3.3	3.2	4.0	3.4
EBIT gross interest cover adj.	3.4	3.3	3.2	4.0	4.3
EBITDA net interest cover adj.	5.6	5.6	6.5	8.5	7.2
EBITDA gross interest cover adj.	5.6	5.6	6.5	8.5	9.0
FFO adj./net debt adj.	33.3%	33.7%	36.6%	32.7%	35.5%
FFO adj./total debt adj.	25.9%	25.0%	26.0%	21.8%	23.5%
RCF adj./net debt adj.	28.3%	31.5%	33.3%	30.0%	32.9%
RCF adj./total debt adj.	22.0%	23.4%	23.7%	20.0%	21.8%
Net debt adj./EBITDA adj.	2.1	2.2	1.9	3.3	2.9
Total debt adj./EBITDA adj.	2.8	2.9	2.6	3.7	3.7
FFO adj./net interest adj.	4.0	4.1	4.5	5.2	5.1
FFO adj./gross interest adj.	4.0	4.1	4.5	5.2	6.3
Total debt adj./total capital adj.	53.5%	51.8%	50.5%	53.4%	53.2%
Net debt adj./net capital adj.	47.2%	44.4%	42.1%	43.3%	43.0%
Equity/total assets	23.7%	24.6%	25.4%	23.8%	23.0%

Source: company data, UniCredit Research

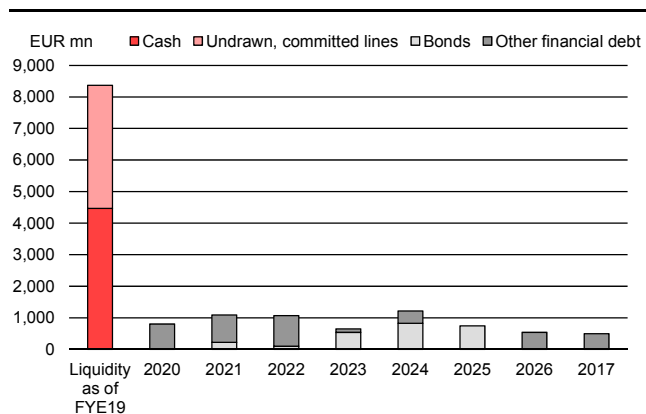
Financial Statistics – Carrefour

EUR mn	2015	2016	2017	2018	2019
Sales	78,857	78,774	80,975	77,917	74,142
EBIT margin adj.	3.5%	3.3%	2.8%	2.8%	2.8%
EBITDA rep.	3,914	3,838	3,574	3,399	4,418
EBITDA margin adj.	5.6%	5.6%	5.8%	5.9%	6.0%
Net income	1,120	934	-365	-57	218
Funds from operations (FFO)	2,315	2,370	2,337	1,929	3,108
Operating cash flow	2,591	2,927	2,526	1,875	3,164
Free cash flow rep. (after capex)	213	181	149	264	1,439
Dividend payment	-474	-207	-292	-235	-222
Retained cash flow (RCF)	1,841	2,163	2,045	1,694	2,886
Acquisitions/disposals	536	-150	361	-17	575
Share buybacks/issues	384	285	929	131	75
Total debt rep.	12,877	13,405	12,975	13,789	17,401
Net debt rep.	10,153	10,100	9,382	9,489	12,935
Adj. for pensions	1,258	1,279	1,256	1,095	1,095
Adj. for operating leases and others	-1,897	-1,789	-1,808	-1,961	-5,268
Net debt adj.	9,514	9,590	8,830	8,623	8,762

DEBT LEVERAGE



DEBT MATURITY PROFILE (31 DECEMBER 2019)



CREDIT METRICS CARREFOUR (UNICREDIT ADJUSTMENTS)

	2015	2016	2017	2018	2019
EBIT net interest cover adj.	3.4	3.3	3.2	4.0	3.4
EBIT gross interest cover adj.	3.4	3.3	3.2	4.0	4.3
EBITDA net interest cover adj.	5.6	5.6	6.5	8.5	7.2
EBITDA gross interest cover adj.	5.6	5.6	6.5	8.5	9.0
FFO adj./net debt adj.	33.3%	33.7%	36.6%	32.7%	36.6%
FFO adj./total debt adj.	25.9%	25.0%	26.0%	21.8%	24.0%
RCF adj./net debt adj.	28.3%	31.5%	33.3%	30.0%	33.9%
RCF adj./total debt adj.	22.0%	23.4%	23.7%	20.0%	22.3%
Net debt adj./EBITDA adj.	2.1	2.2	1.9	3.3	2.9
Total debt adj./EBITDA adj.	2.8	2.9	2.6	3.7	3.7
FFO adj./net interest adj.	4.0	4.1	4.5	5.2	5.1
FFO adj./gross interest adj.	4.0	4.1	4.5	5.2	6.3
Total debt adj./total capital. adj.	53.5%	51.8%	50.5%	53.4%	52.7%
Net debt adj./net capital. adj.	47.2%	44.4%	42.1%	43.3%	42.2%
Equity/total assets	23.7%	24.6%	25.4%	23.8%	23.0%

Source: company data, UniCredit Research

Financial statistics – Groupe Casino

PROFIT AND LOSS

EUR mn	2016	2017	2018	2019	2020E	2021
Total revenue	36,030	37,822	37,136	35,310	32,909	32,566
EBITDA clean	2,399	3,093	2,667	2,275	2,273	2,305
EBITDA (UniCredit)	1,188	1,537	1,725	2,165	2,163	2,195
EBITDA (reported)	1,697	1,930	1,865	2,640	2,620	2,690

PROFITABILITY RATIOS

EBITDA margin clean	6.7%	8.2%	7.2%	6.4%	6.9%	7.1%
EBITDA margin (UniCredit)	3.3%	4.1%	4.6%	6.1%	6.6%	6.7%
EBITDA margin (reported)	4.7%	5.1%	5.0%	7.5%	8.0%	8.3%

CASH FLOW

EUR mn	2016	2017	2018	2019	2020E	2021
EBITDA clean	2,399	3,093	2,667	2,275	2,273	2,305
Adjustments/restructuring	-215	-216	-370	-339	-878	-803
Interest	-324	-368	-242	-394	-394	-394
Tax	-34	-56	-204	-137	-138	-122
FFO (funds from operations)	616	898	909	1,295	863	986
Change in working capital	640	-303	-192	92	-194	-128
Operating cash flow	1,256	595	717	1,387	668	858
Capex	-1,160	-1,286	-1,185	-1,107	-1,000	-1,000
Free operating cash flow	96	-692	-468	280	-332	-142
Dividends	-623	-422	-466	-275	-275	-275
Acquisitions/disposals	3,309	229	1,241	294	300	300
Share buybacks/issues	-30	0	-103	-1,011	0	0
FCF	2,752	-884	204	-712	-307	-117

CAPITALIZATION

EUR mn	2016	2017	2018	2019	2020E	2021E
Equity	14,440	13,057	12,079	8,291	7,988	7,995
Total debt (incl. lease liabilities since 2019)	10,215	8,722	9,028	14,326	14,633	14,750
Cash	5,614	3,237	3,592	3,471	3,471	3,471
Net debt (total debt minus cash)	4,601	5,485	5,436	10,855	11,162	11,279

LEVERAGE RATIOS

Net debt leverage (unadjusted, UniCredit)	2.7x	2.8x	2.9x	4.1x	4.2x	4.1x
Total debt leverage (unadjusted)	6.0x	4.5x	4.8x	5.4x	5.5x	5.4x

DEBT ADJUSTMENTS (UNICREDIT)

EUR mn	2016	2017	2018	2019	2020E	2021
For pensions	212	242	247	241	241	241
For operating leases	2,094	2,255	2,635	0	0	0
Others*	2,279	711	2,913	751	751	751
Total adjusted net debt leverage	3.6x	3.1x	4.2x	5.6x	5.5x	5.4x
Total adjusted FFO/net debt	13.2%	17.3%	14.7%	10.9%	7.1%	8.0%

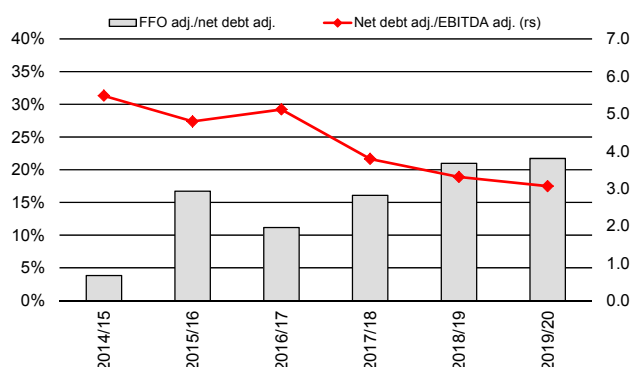
*contingent liabilities, guarantees

Source: company data, UniCredit Research

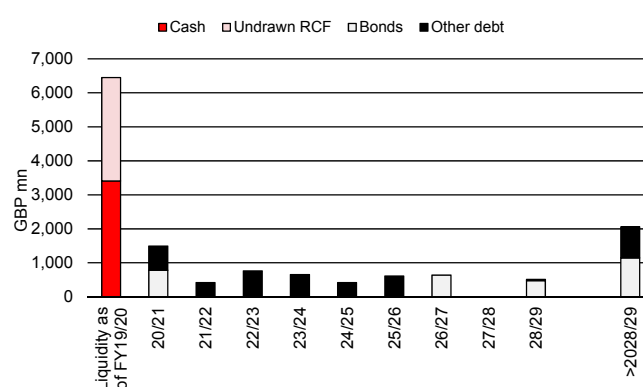
Financial Statistics – Tesco

GBP mn	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Sales	56,925	54,433	55,917	57,491	63,911	64,760
EBIT margin adj. (UniCredit)	2.9%	3.0%	3.2%	4.8%	4.5%	4.3%
EBITDA rep.	-4,198	2,380	2,321	3,132	3,528	5,162
EBITDA margin adj. (UniCredit)	7.2%	6.9%	6.5%	8.0%	7.5%	8.4%
Net income	-5,664	216	58	992	1,320	935
Funds from operations (FFO)	266	2,338	1,471	2,266	2,721	3,629
Operating cash flow	676	2,170	2,058	2,858	2,025	98
Free cash flow rep. (after capex)	-1,642	1,132	684	1,221	733	-1,106
Dividend payment	-914	0	0	-82	-357	-656
Retained cash flow (RCF)	-648	2,338	1,471	2,184	2,364	2,973
Acquisitions/disposals	105	533	1,547	294	-432	3,960
Share buybacks/issues	33	1	1	11	-146	-149
Total debt (UniCredit)	12,659	13,537	11,993	8,621	7,272	17,061
Net debt (UniCredit)	9,285	6,992	5,445	3,533	3,966	12,292
Adj. for pensions	3,842	3,259	5,900	5,900	4,130	4,407
Adj. for operating leases and others	9,379	7,791	7,341	8,000	7,750	0
Net debt adj. (UniCredit)	22,506	18,042	18,686	17,433	15,846	16,699

DEBT LEVERAGE



DEBT MATURITY PROFILE (29 FEBRUARY 2020)



CREDIT METRICS TESCO (UNICREDIT ADJUSTED)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
EBIT net interest cover adj.	1.3	1.1	1.2	2.2	2.4	1.5
EBIT gross interest cover adj.	1.2	1.0	1.1	2.1	2.3	1.4
EBITDA net interest cover adj.	3.2	2.4	2.5	3.7	3.9	2.8
EBITDA gross interest cover adj.	3.0	2.4	2.3	3.5	3.9	2.8
FFO adj./net debt adj.	3.8%	16.7%	11.2%	16.1%	21.0%	21.7%
FFO adj./total debt adj.	3.3%	12.3%	8.3%	12.4%	17.4%	16.9%
RCF adj./net debt adj.	-0.2%	16.7%	11.2%	15.6%	18.7%	17.8%
RCF adj./total debt adj.	-0.2%	12.3%	8.3%	12.1%	15.5%	13.8%
Net debt adj./EBITDA adj. (rs)	5.5	4.8	5.1	3.8	3.2	3.4
Total debt adj./EBITDA adj.	6.3	6.5	6.9	4.9	4.0	3.9
FFO adj./net interest adj.	0.7	1.9	1.4	2.3	2.7	1.9
FFO adj./gross interest adj.	0.6	1.9	1.3	2.1	2.7	1.9
Total debt adj./total capital. adj.	78.5%	76.5%	76.9%	70.5%	58.6%	63.9%
Net debt adj./net capital. adj.	76.1%	70.5%	71.2%	64.9%	54.0%	58.0%
Equity/total assets	15.8%	19.6%	14.0%	23.3%	30.2%	24.8%

*not restated

Source: company data, UniCredit Research

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