Connections Series
Global Food Retail Barometer
Charting global feedback on e-grocery

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Equity Research | Europe

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Connections Series
The Credit Suisse Connections Series leverages our exceptional breadth of macro and micro research to deliver incisive cross-sector and cross-border thematic insights for our clients.

Charting global feedback on e-grocery

We publish this presentation to highlight our analysis and summarise global data points on consumer behaviour relevant for the food retail sector.

While each country has its own specific characteristics, we think the acceleration of e-grocery could have a similar impact on food retail markets across the globe.

We acknowledge the enormous uncertainties, with high volatility in demand, changing cost structure and potential impact from supply chain disruptions.

As such, this analysis is on a best efforts basis, and largely reflects our analysts' views and judgements as well as management feedback from companies across the globe.

This is the second edition of our Global Retail Barometer and we plan to continue to share feedback and analysis for each food retailer under coverage and provide updates as significant developments impact the sector globally.

-Your Credit Suisse Global Food Retail coverage team
(Victoria Petrova, Onur Muminoglu, Rob Moskow, Victor Saragiotto, A-hyung Cho)

Global food retail

Three trends that look set to continue beyond the pandemic

1. Structural shift into the concept of new convenience: more food to be bought online: COVID-19 has massively accelerated e-grocery growth. While experts' opinions vary when it comes to sustainable penetration levels and immediate post-COVID growth, consensus forecasts indicate e-grocery is set to become a bigger channel for food consumption across countries, incomes and demographic segments.

Implications for incumbents: Ignoring the online channel would lead to market share losses. Most retailers have experienced massive growth in the online channel and are investing in online operations.

2. **Price matters**: **higher transparency, lower loyalty.** We believe that the shift to online allows higher transparency and puts additional pressure on pricing of goods and delivery.

Implications for incumbents: Retailers will have to work very hard to continue to own their sales channels. Cost-efficient cash rich retailers will benefit mid-term.

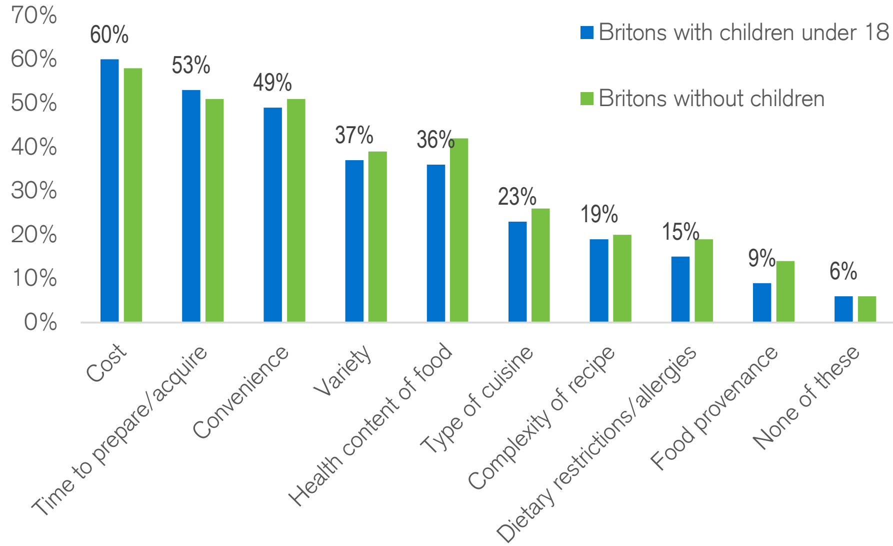
3. Profitability: Automation in fulfillment: Online grocery continues to be dilutive for retailers' margins. Testing various fulfillment options and partnerships, choosing between immediate flexibility, capacity and level of automation and innovation would be crucial for retailers' next-year performance.

Implications for retailers: Fulfillment market is in its infancy. We believe that manual pick is a temporary solution, which is supported by capacity constraints, while micro-fulfillment centers are likely to serve as the most widely used solution going forward.

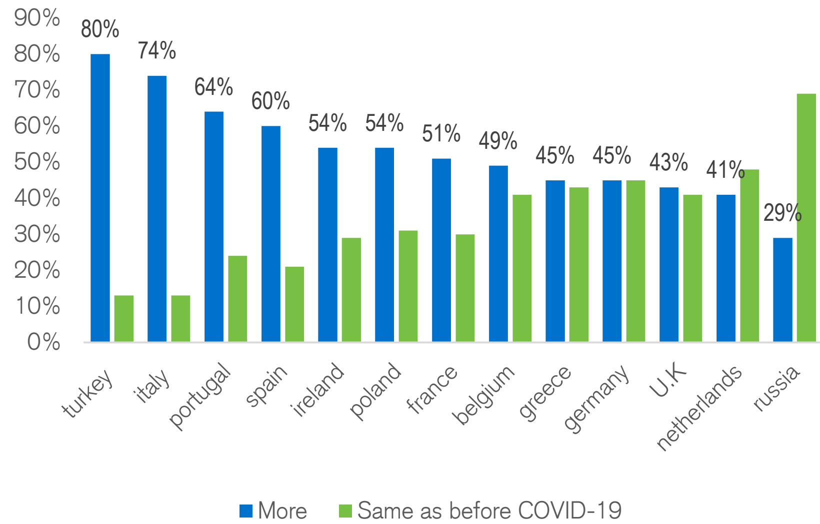
Online grocery habits are here to stay

COVID-19 has introduced new trends, including increased healthy eating and home cooking

Cost, convenience and time to acquire are the main concerns of grocery shoppers during COVID-19 (Source: YouGov Apr. 20)



Consumers globally are cooking more at home than before COVID-19 (Source: Nielsen April 2020)



Headline online grocery statistics and commentary

- 'The longer the COVID-19 environment extends, the more embedded new habits will become' – Nielsen
- More than half of US consumers (51%) who report cooking more during COVID-19 will continue to do so when the crisis ends – Hunter consumer survey
- Online grocery growth increased to 92% in July and although restrictions have eased, >1/5 households still made an online order in 4 weeks to 12th July' - Kantar
- Online grocery has attracted a new group of customers, particularly older demographics, some of whom will continue using online services now that they have the enjoyed the convenience that home delivery provides - Kantar

Experts explain how to win in online grocery

Overnight transformation of e-grocery

Online food disruption

We have run several conference calls during the past few months covering consumer behavior in online grocery, e-commerce automation, and micro-fulfilment for grocers. The key highlights from our conversations with industry experts are summarized below:

- **Full range and price matter:** Consumers want the full product selection of traditional stores and are highly price sensitive to service fees; consumers prefer click and collect methods (65% in the US) or expect faster delivery <1 hour. The differential, though, is not enough to justify the difference in cost between a <1 hour and 1-2 hour delivery time. Consumers are more health aware, so we might expect an increased (packaged) fresh food purchases through modern retail channels.

- **The key to preventing cannibalisation of in-store sales is data:** According to one expert we spoke with, data analytics tools and CRM (customer relationship management) are key to estimating cannibalisation and positively influencing consumer behavior. Tesco, which has the highest market share in the UK, is likely to see more sales cannibalised as customers shift to online. With its partnership with Amazon, Morrisons is penetrating a new market – the one of immediacy – which should minimize cannibalisation as it has little overlap with the current in-store Morrison offer.

- **The future of online is an asset light model:** The majority of the experts we spoke with agree on the need for CAPEX-light strategies of online development for supermarkets. Third-party and own store picking is a simple start for small grocers as it increases the efficiency of rather unproductive space. Higher demand requires a more automated option, while using third-party vendors for delivery could add immediate flexibility. This supports our relative preference for micro-fulfillment solutions vs. the large CFCs Ocado offers now.

- **MFCs offer faster delivery and have less immediate costs than CFCs:** According to experts we spoke with, CFCs might find achieving this fast delivery expensive as incremental distance costs are high and consumers won't collect from far away. Grocers should consider leveraging existing real estate with in-store Micro-fulfilment. One expert believes that repurposing of malls into fulfillment centers will be the new normal. Population density will play a part in the grocer's decision on fulfilment solution, with urban settings potentially being more suited to the CFC model.

Supermarkets struggle to profit from online grocery

Online shift requires significant resource investment

The impact of online grocery margins: The COVID-19 lockdown caused retailers to immediately ramp up their e-grocery capacity in order to meet demand. Alongside COVID costs, this rapid adoption has proven to be dilutive to profit margins, with Tesco and Sainsbury reporting flat profit margins despite extraordinary online sales growth (c.40-140%).

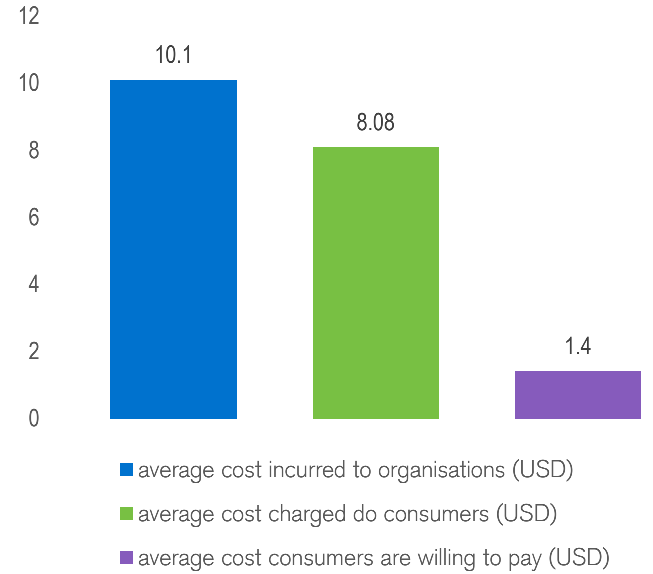
We highlight some of the most significant costs of online grocery below:

- **High costs of manual picking and delivery:** Experts argue that manual picking is inefficient as it causes overcrowding in stores. Despite many retailers offering free delivery to stay competitive, Fabric's COO estimates that manual picking costs c.€12-14 per order, while consultant Brittain Ladd believes it is cUS$7-11 (source: CS Disruption Series Calls).
- **Significant capital and time outlay for automated fulfilment centres:** CFCs can entail significant set-up costs; however, grocers may be able to leverage existing real estate and run hybrid MFCs from stores
- **Marketing expenses:** to draw consumers online (promotional vouchers and low/free delivery fees).

What are grocers doing to tackle profitability?

- Click and collect/'curbside' delivery for lower delivery costs
- Automated fulfilment (robotic picking arms and automated fulfilment centres) increases efficiency and reduce picking costs, but requires a high upfront cost
- Larger transaction sizes (to reduce per van delivery costs)
- Increased focus on optimisation of 'the last-mile'; i.e. scaling up delivery without increasing Capex. This can be heavily dependent on population density.
- Rational pricing to accurately reflect the cost of delivery.

Retailers are absorbing a significant part of the cost of last-mile delivery



Source: Capgemini Research Institute, Last-mile delivery consumer survey, October-November 2018

Market Model: Offline to online shift

Online share of global food market c.9% in 2025e

The transformation of e-commerce:

We present our analysis of the global food market, which can be summarised in our market model, with the online food market growing from an estimated US$402.6bn in 2019 to US$1.2tr in 2025e. This means in 2019, the online penetration was at 4.4%, and by 2025e this should double to 8.8%.

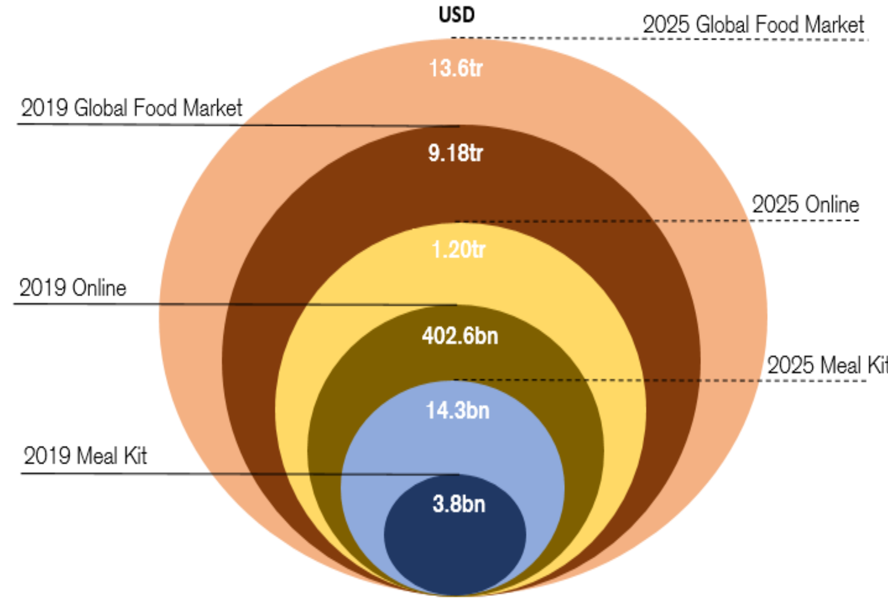
Traditional grocers to move business online:

We split the online food market into two components: online grocery and online food delivery. We use IGD research as a base for our forecasts, inflating the CAGR by c.8% to account for the effect of the COVID-19 lockdown. We therefore estimate the online grocery market to be worth c.US$186bn in 2019, growing at a c.28% CAGR to c.US$850bn in 2025e. Hence, the online grocery penetration of the global food market will grow from 2% in 2019 to c.6% in 2025e.

Meal kit businesses to benefit from online transformation:

We used Hexaresearch data to estimate that the meal-kit market was worth US$3.8bn in 2019, c2% of the online food market. We expect the meal-kit market to remain broadly flat as a share of online, at 2% until 2023, decreasing to 1.7% in 2025. As a result, we expect a 3.7x increase in the meal kit market between 2019 and 2025.

Online grocery market estimated to grow to 1.2tr by 2025e



Source: Credit Suisse estimates, using HelloFresh Company data (HF revenue forecast and market model COVID-19 impact), Hexaresearch, IGD research,

Market model: Scenario analysis

Potential for online to reach c.11% penetration in 2025e with increased efficiency/technology and new post-lockdown consumer trends

Online Blue Sky:
The online grocery market (excluding food delivery) grows faster as a proportion of the global food market, from 3.3% to 8.0% in 2020-25 vs 2.9% to 6.2% in our base case. This means the online grocery market records a CAGR of 34.3% towards US$1,089bn in 2019-25 online grocery market value.

Online Grey Sky:
The online grocery market records a 19.4% CAGR from US$186.9bn in 2019 to US$541.7bn in 2025 online grocery sales, similar to IGD forecasts for the top-10 online grocery markets globally. The online food delivery market records an 8.5% CAGR from US$216.7bn to US$353.7bn sales, in line with estimates from Euromonitor.

Estimated addressable market (USDm)	2017	2018	2019	2020	2021	2022	2023	2024	2025
Global food market	**8,045,000**	**8,592,060**	**9,176,320**	**9,800,310**	**10,466,731**	**11,178,469**	**11,938,604**	**12,750,430**	**13,617,459**
Total growth	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
Global online food market		**343,961**	**402,653**	**519,206**	**623,369**	**748,998**	**861,424**	**1,016,716**	**1,203,042**
Online food delivery market		195,119	216,715	239,446	262,219	283,506	306,363	330,541	353,679
growth			11.1%	10.5%	9.5%	8.1%	8.1%	7.9%	7.0%
Online grocery market		148,842	185,938	279,760	361,149	465,492	555,061	686,176	849,363
growth			24.9%	50.5%	29.1%	28.9%	19.2%	23.6%	23.8%
Total online share of global food market	*1.6%*	*4.0%*	*4.4%*	*5.3%*	*6.0%*	*6.7%*	*7.2%*	*8.0%*	*8.8%*
Online grocery share of global food market		*1.7%*	*2.0%*	*2.9%*	*3.5%*	*4.2%*	*4.6%*	*5.4%*	*6.2%*
Meal kit market	**2,494**	**3,145**	**3,823**	**5,668**	**7,108**	**9,282**	**10,847**	**12,458**	**14,308**
growth		26%	22%	48%	25%	31%	17%	15%	15%
growth in mn	420	651	678	1,845	1,440	2,174	1,565	1,611	1,850
Meal kit share of online grocery market		*2.1%*	*2.1%*	*2%*	*2%*	*2%*	*2%*	*2%*	*2%*
Meal kit share of global food market	*0.03%*	*0.04%*	*0.04%*	*0.06%*	*0.07%*	*0.08%*	*0.09%*	*0.10%*	*0.11%*

Grey Sky Scenario (USDm)	2017	2018	2019	2020	2021	2022	2023	2024	2025
Global food market	**8,045,000**	**8,592,060**	**9,176,320**	**9,800,310**	**10,466,731**	**11,178,469**	**11,938,604**	**12,750,430**	**13,617,459**
Total growth	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
Global online food market		**343,019**	**403,660**	**495,561**	**531,141**	**609,977**	**699,433**	**795,936**	**895,399**
Online food delivery market		195,119	216,715	239,446	262,219	283,506	306,363	330,541	353,679
growth		22.9%	11.1%	10.5%	9.5%	8.1%	8.1%	7.9%	7.0%
Online grocery market		147,900	186,946	256,115	268,921	326,470	393,070	465,395	541,720
growth			26.4%	37.0%	5.0%	21.4%	20.4%	18.4%	16.4%
Total online share of global food market	*1.6%*	*4.0%*	*4.4%*	*5.1%*	*5.1%*	*5.5%*	*5.9%*	*6.2%*	*6.6%*
Online grocery share of global food market		*1.7%*	*2.0%*	*2.6%*	*2.6%*	*2.9%*	*3.3%*	*3.7%*	*4.0%*

Blue Sky Scenario (USDm)	2017	2018	2019	2020	2021	2022	2023	2024	2025
Global food market	**8,045,000**	**8,592,060**	**9,176,320**	**9,800,310**	**10,466,731**	**11,178,469**	**11,938,604**	**12,750,430**	**13,617,459**
Total growth	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%
Global online food market		**343,961**	**402,653**	**562,856**	**733,222**	**875,965**	**1,022,679**	**1,223,071**	**1,443,075**
Online food delivery market		195,119	216,715	239,446	262,219	283,506	306,363	330,541	353,679
growth		22.9%	11.1%	10.5%	9.5%	8.1%	8.1%	7.9%	7.0%
Online grocery market		148,842	185,938	323,410	471,003	592,459	716,316	892,530	1,089,397
growth			24.9%	73.9%	45.6%	25.8%	20.9%	24.6%	22.1%
Total online share of global food market	*1.6%*	*4.0%*	*4.4%*	*5.7%*	*7.0%*	*7.8%*	*8.6%*	*9.6%*	*10.6%*
Online grocery share of global food market		*1.7%*	*2.0%*	*3.3%*	*4.5%*	*5.3%*	*6.0%*	*7.0%*	*8.0%*

Source: Company data (HF revenue forecast and market model COVID-19 impact), Hexaresearch, IGD research, Credit Suisse estimates

EUROPE

Tesco

(Neutral, TP 265p) - UK

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Beyond the Pandemic highlights (Source: Company data, Credit Suisse estimates)

	Pre-Pandemic		During pandemic		Future expectation	
UK Online LFL Y/Y	1Q-20	8.5%	1Q-21	48.5%	FY21 Group	c66%
			May-21	89.6%		
Ireland Online LFL			1Q-21	51.4%		
			May-21	61.8%		
Market share (online grocery)			1Q-21	33.5%		
No of orders			1Q-21	12.6m		
click & collect (% of online)	1Q-20	10%	1Q-21	c25%		
% online sales (UK)		9%		16%		c16%
Online Capacity (orders/wk)		600,000		1,300,000	FY21	1.3-1.4m

Company Comments

- **Expectation/Guidance –** Online sales FY21 +66% y/y
- **Long-term view** – Management is confident of retaining the new customer base, and will continue to find opportunities to scale its online business.
- **Supply chain capacity –** Doubled the capacity from 0.6m slots to 1.3m slots in 5 weeks. Deployed additional 12,000 pickers, 4,000 drivers and 400 vans to accommodate increased demand during the pandemic. Plans to develop 25 urban fulfilment centers, UFCs to cope with future online demand.
- **Competitive advantage** – Flexibility of online model to allow low capex capacity expansion. Doubled online capacity in 5 weeks with just £4m of capex.
- **Upcoming catalyst –** HY result (7 Oct 20)

CS View

- **View on online expansion:** Online grocery almost doubled in a few months and reached 13% of grocery sales in June 2020 (Ocado data). We expect high retention and 10% online grocery share by the end of 2020.
- **The largest online grocer in the UK….:** Tesco demonstrated 48.5% online sales growth in 1Q20/21 and expects 20/21 FY sales to exceed £5.5bn, c2x more than Ocado retail (we expect £2.46bn in 2020e and £2.7bn in 2021e).
- **…is given little credit for online growth due to concerns over profitability:** Online growth is seen as a risk to Tesco's long-term profitability, while incremental sales, given Tesco's leading market share and close to 100% UK coverage, are limited.

Ocado Group

(Underperform, TP 1088p) - UK

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Beyond the Pandemic highlights (Source: Company data, Credit Suisse estimates)

	Pre-Pandemic		During pandemic		Future expectation	
Retail Revenue Y/Y	1Q-20	10.3%	2Q-20	40.4%	FY20	52.0%
Items delivered			4wks	50m		
Overall share (online grocery UK)				15.7%		
Capacity Utilisation						
Capacity growth				**+40%**		
o/w no of orders				-10%	**FY21**	**+50% more**
o/w basket size				+50%		
Mature CFCs (UPH)	1H19	159	1H20	170		
Dordon (UPH)		185		200		
CFC 4, orders per week		80000		110000		

Company Comments

- **Expectation/Guidance –** No company guidance for FY20, due to the uncertainties about length of crisis, and other macroeconomic factors .
- **Long-term view** – Expecting LT shift towards on-line grocery to accelerate post-crisis.
- **Supply chain capacity –** Has taken a number of tactical decisions to protect existing customer base and increase capacity. Also capacity utilization increased significantly in the CFCs. Expecting 50% capacity expansion in the next year from new facilities. There are 1.1m customers signed up and waiting to order as soon as Ocado has the capacity.
- **The Big4 online activity:** In fact, channel shift towards online from Big4 retailers will be beneficial for Ocado, as it is easier to acquire their online customers than the Brick & Mortar customers.
- **Upcoming catalyst –** 3Q trading (15 Sep 20)

CS View

- **View on online expansion:** Online grocery almost doubled in a few months and reached 13% of grocery sales in June 2020. We expect Ocado Retail to grow c52%, reaching £2.46bn in 2020e; however, the online businesses of Tesco and others could benefit from Ocado's current capacity constraints.
- **Addressing a huge market with a suboptimal product**: Ocado is seen as a clear beneficiary of increased need for automated fulfillment solutions and the current valuation implies above 200 large (c £350m annual revenue stream) fulfillment centres, while we believe the world is moving towards micro-fulfillment, a competitive solution market with strong players, which, unlike Ocado's MFC Zoom, already offer a solution to third parties.

WM Morrison Supermarkets

(Outperform, TP 221p) - UK

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Beyond the Pandemic highlights (Source: Company data, Credit Suisse estimates)

	Pre-Pandemic		During pandemic		Future expectation	
Online growth		c7%			LT	c7%
					Mid-term	>c7%
Online (% of group sales)				7-8%		
Online grocery market share				6.0%		
no of C&C stores	Mar	6	Mid-Jun	180		

Company Comments

- **Expectation/Guidance –** Strong cash profit from the online business.
- **Supply chain capacity –** More than doubled the number of weekly home delivery slots, well in excess of the 60% increase (initially planned). MRW stores on Prime now have been extended to 40 stores across the UK and covers 90% of London postcodes. A partnership with Deliveroo for 30 mins grocery delivery from 130 stores. Expected to further increase delivery slots. Opened telesales services for delivery to customers who don't use internet. "Morrisons at Amazon" is moving onto main amazon,co.uk web site in Leeds and will soon be available to millions of Prime members across country.
- **Upcoming catalyst –** Interim results (10 Sep 20)

CS View

- **E-grocery Expansion:** Online grocery almost doubled in few months and reached 13% of grocery sales in June 2020 in the UK (Ocado data).
- **Cannibalisation from Online business:** We believe that MRW is best positioned to benefit from incremental sales increase in online, given that it has no direct exposure to the convenience format and has additional market share improvement potential in a number of geographies.
- **Impact on profitability:** We believe Morrisons is best positioned among the Big4 with their CAPEX-light partnership (Ocado, Amazon, Deliveroo) and low level of expected cannibalisation given potential exposure to regions and target audience where Morrisons has low market share at the moment.

Sainsbury

(Outperform, TP 280p) - UK

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Beyond the Pandemic highlights (Source: Company data, Credit Suisse estimates)

	Pre-Pandemic		During pandemic		Future expectation	
Online grocery growth	FY20	7.6%	1Q-21	87.0%		
	5y CAGR	7.0%	May-20	125.0%		
			Jun-20	135.0%		
Online grocery penetration		7.0%	1Q-21	17.0%		>7-8%
No of delivery slots (increase)				+50%		
% Click & collect mix		3.0%		23.0%		
Online Capacity (orders/wk)		370,000	Jun-20	>650,000		

Company Comments

- **Expectation/Guidance –** Strong cash profit from the online business.
- **Supply chain capacity –** SBRY has invested in delivery and click and collect capacity to help as many customers as we can to shop online. The average basket size has increased, as more people are spending time with their family at home.
- **View on automation:** Current focus will be on pick from store for online grocery model as it is the most profitable one. Instead of automation, will be working on efficient truck utilisation and pick efficiency in store.
- **Cannibalisation of existing business:** 50% of the new online grocery customers were new customers and the rest are existing customers of SBRY.
- **Upcoming catalyst –** Interim results (5 Nov 20)

CS View

- **View on online Expansion**: Online grocery almost doubled in a few months and reached 13% of grocery sales in June 2020 (Ocado data). We expect high retention and 10% online grocery share by the end of 2020.
- **Cannibalisation from Online business:** According to company, 50% of online customers are new to SBRY, which gives at least some indication of the expected level of cannibalisation.
- **Impact on profitability:** We believe e-grocery penetration suggests at-least mid-term risks to retailers' margins due to a combination of cannibalisation and lower profitability.

HelloFresh

(Outperform, TP €61) - Germany

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Beyond the Pandemic highlights (Source: Company data, Credit Suisse ests)

	Pre-Pandemic		During pandemic		Future expectation	
Active customers	19-Dec	2.97	Mar-20	4.18	FY20e	4.51
Q/Q growth	Q/Q	19.8%	Q/Q	40.7%	y/y	51.8%
Revenue y/y (cFX)	4Q-19	39.1%	1Q-20	65.0%	FY20e	82.1%
			2Q-20	122.0%		
No of orders y/y	4Q-19	42%	1Q-20	65.4%	FY20e	73.7%
			2Q-20	102.8%		
Meals delivered (mn)	1Q-19	65.6	1Q-20	111.3		
	2Q-19	67.0	2Q-20	148.9		
FY20 guidance revision						
Revenue growth		22-27%	1H-20	75-95%		
EBITDA margin		4-5.5%	1H-20	9-11%		

Company Comments

- **Expectation/Guidance –** FY20 outlook - Revenue guidance (75-95%) and AEBITDA margin (9-11%)
- **Long-term view** – Given that there will be a lot of additional demand for the meal kits and home solutions, with the brand awareness of HelloFresh, it is very well positioned in long term.
- **Supply chain capacity –** Expanded the capacity through creating additional spaces around manufacturing centers and through ramping up the number of delivery and production days. FY20 capex for capacity expansion €70m.
- **Competitive advantage** – HF benefits from market leadership, technological advantage (in developing lasting customer relationships) and brand loyalty.
- **Upcoming catalyst –** Q320 result (3 Nov 20)

CS View

- **View on online Expansion:** We expect the meal kit market to maintain its position as 2% of the online grocery market, and HF to grow to 55% market share in 2023. We also expect overall penetration in the countries in which HF is present to be 2.5% by 2023.
- **Cannibalisation from Online business:** We see some risk of online grocers moving into the meal kit market now that they are strengthening their e-grocery businesses; however, this doesn't seem to be a priority for our coverage. We also see mid-term risk of cannabalisation from e-commerce majors e.g. Amazon and Alibaba.
- **Impact on profitability:** As HF is aiming to continue to grow rapidly, the current resource fulfillment, customer service and other services may be insufficient, leading to an increase in operating expenses. This could hinder HF's future margin growth.

Perekrestok.ru
(part of X5 Retail Group (Not covered))
Russia

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Beyond the Pandemic company highlights (Source: Company data)

	Pre-Pandemic		During pandemic		Future expectatio	
Online Y/Y growth	Q1-20	135.3%	Q2-20	314.3%		
Market share (online grocery)	2019	10.0%			2024	c.13%
No of orders	Q1-20	591 ths	Q2-20	885 ths		
% online sales (of X5 sales)	Q1-20	0.45%	Q2-20	0.73%	2024	c.3%
Online Capacity (orders/day)	Q1-20	10,000	Q2-20	15,000		

Company Comments

- **Long Term view** – Online food retail market in Russia is expected to increase at c. 70% CAGR during the next 5 years.
- **Supply chain capacity** – To support increased demand during pandemic, increased the number of couriers and pickers and transport fleet by 20%, launched a new dark store ahead of schedule in April, increasing capacity in Moscow by 40%.
- **Competitive advantage** – strong well-known brand in the food retail market, supplier terms and bargaining power that the company has as the largest food retailer in Russia

Overall landscape

- **Online food consumption landscape in urban Russia:** Several online players, including Yandex and Mail.ru, have highlighted interest in e-grocery (Yandex.Lavka, operated by Yandex delivers basic products within 1 hour) and takeaway businesses (Yandex.Eda (operated by Yandex) and Delivery Club (operated by mail.ru)).

Migros

(Neutral, TP TRY 38.5) - Turkey

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Beyond the Pandemic highlights (Source: Company data, Credit Suisse estimates)

	Pre-Pandemic		During the pandemic
Online LFL Y/Y	FY19	65-70%	Online orders 4x
% online sales	FY19 CSe	4-5%	

Company Comments

- **Expectation/Guidance** – Not quantified but above-physical growth expected
- **Long-term view** – Management keen on maintaining online growth as a strategic priority. Online service stores already doubled during pandemic.
- **Supply chain capacity** – Lower traffic growth in hypermarkets seen as opportunity to use them as mini distribution centers. Number of cities served upped to cover all cities in Turkey from 58 at YE19 with 408 stores used as distribution stores (vs 193 at YE19).
- **Competitive advantage** – Strong positioning as an innovator, icon for modern retailing in Turkey. Nationwide coverage of super/hypermarkets enabling MFCs. Strong assortment.
- **Upcoming catalyst** – 2Q results due mid-August.
- **Other comment** – Turkish consumers have a conservative stance in food trade apparent from still strong share of traditional retail (open bazaars and mom & pops) despite high growth of discounters.

CS View

- **View on online Expansion:** Migros has been a pioneer in online investments even prior to COVID. It has added 4,000 new staff during the pandemic, increased call-center personnel by 4x, increased darkstores from 2 to 10 and MFCs from 3 to 17.
- **Cannibalisation from Online business:** It has nationwide coverage catering to the AB income group, hence it is exposed to potential cannibalisation from the growing number of online competitors.
- **Impact on profitability:** 2Q will be the first quarter showing the cost impact of accelerated online investments. In 2018, we think the dilutive impact of online costs was minimal. With more diversified resources allocated in 2019, it could have made a small negative profit contribution, more such negatives are probable in 2020E.

Sok Marketler

(Outperform, TP TRY 15.3) - Turkey

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Beyond the Pandemic highlights (Source: Company data, Credit Suisse estimates)

	Pre-Pandemic		During the pandemic	
Online LFL Y/Y	0	0.0%	na	na
Market share (online grocery)	0	0.0%	na	na
No of orders	0	0.0%	na	na
click & collect (% of online)	na	na	na	na
% online sales		<1%	0	0.0%

Company Comments

- **Expectation/Guidance** – Will allocate part of its new 2020 staff hiring into online, likely to remain in wait-and-see mode until the post-pandemic online demand settles down to more sustainable growth.
- **Long-term view** – Management is cost-sensitive, unlikely to follow an aggressive investment trajectory going forward.
- **Supply chain capacity** – It has 40% less store traffic than BIM; hence can use part of its residual store personnel for meeting online targets at the initial phase.
- **Competitive advantage** – Strong bargaining power in procurement, high brand awareness across Turkey. Strengthening balance sheet to invest.
- **Upcoming catalyst** – 2Q results due mid-August
- **Other comment** – Turkish consumers have a conservative stance in food trade apparent from still strong share of traditional retail (open bazaars and mom & pops) despite high growth of discounters.

CS View

- **View on online expansion:** Sok appears eager to invest in the long-term growth potential of online grocery; however management has a cautious approach on the associated costs. It has a click & collect through mobile app. It delivers only to a certain radius of store locations but is planning to enlarge the coverage with new delivery options (it will allocate a portion of its 5,000 new staff for 2020 into online supply chain).
- **Cannibalisation from Online business:** Sok follows a high assortment discount model in the nearby convenience small stores. Therefore its business proposition is more subject to online competition than BIM's highly PL-focused intrinsic business model.
- **Impact on profitability:** Management appears cautious on the near-term profit impact, aiming to avoid an overinvestment.

BIM

(Neutral, TP TRY 63.5) - Turkey

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Company Comments

- **Expectation/Guidance** – No immediate plan to kick off online in the hard discount model. Only in the supermarket business (FILE)
- **Long-term view** – Management is highly cost sensitive, unlikely to facilitate online channel given small basket size (US$4) hardly justifying supply chain costs.
- **Supply chain capacity** – BIM has a highly disciplined distribution network with self-owned warehouses and trucks. It has high proximity to consumers with 7,700 small-box stores - though highly utilised store capacity with tight inventory space to use them as distribution centers.
- **Competitive advantage** – Strong bargaining power, high brand awareness especially for its high-quality private label products. Price leader. Strong balance sheet enables it to take immediate action.
- **Other comment** – Turkish consumers have a conservative stance in food trade apparent from the still strong share of traditional retail (open bazaars and mom & pops) despite the rapid growth of discounters.

CS View

- **View on online Expansion:** Management does see an immediate need to go online in the hard-discount BIM stores given its already high proximity to consumers through physical stores. Its supermarket model (FILE) will be in the planning stage for online until YE20.
- **Cannibalisation from Online business:** It has a quite loyal shopper base looking for BIM's trusted private-labels at the most affordable prices. Unlikely to see major cannibalisation unless online providers go aggressive on pricing in the online proposal.
- **Impact on profitability:** No major costs in the near term. We expect a gradual kick-off in the FILE banner next year.

AMERICAS

Kroger

(Neutral, TP $35) - USA

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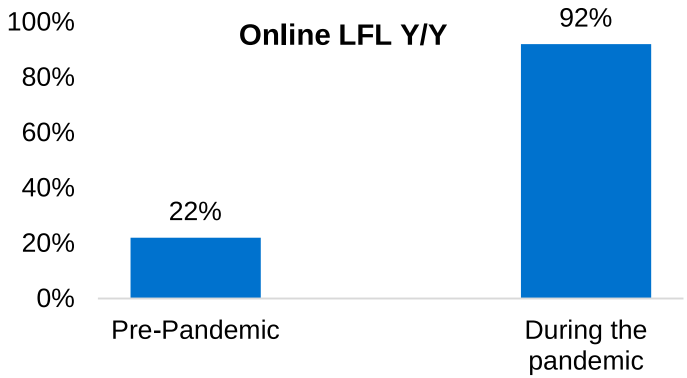
Beyond the Pandemic highlights (Source: Company data, Credit Suisse estimates)



Upcoming catalyst – The first 2 Ocado CFCs will become functional next spring in Southwest Ohio and in Florida

Company Comments

- **Expectation/Guidance** – KR expects to exceed the outlook shared on the April 1 business update for identical sales without fuel, adjusted FIFO operating profit, adjusted EPS and adjusted free cash flow.
- **Long-term view** – KR believes its partnership with Ocado will be the key focus for the future of its e-commerce strategy; utilizing both larger CFCs that offer scale and wider benefits and smaller format and mini CFCs to reach more geographies and catering to a wide range of options for delivery/pickup/in-store fulfillment.
- **Supply chain capacity** – Supply chain has started to normalize, but there are still going to be some areas where it will be more difficult to promote, e.g. where there are still overhangs of supply issues in certain categories.
- **Competitive advantage** – Expanding asset-light, margin-rich alternative profit streams, partnerships with Ocado ("Ocado is valuable not just for its current capabilities but also in how quickly they innovate to serve a rapidly developing online consumer market. Ocado's model to deliver to customers is significantly less costly than our existing model.")

CS View

- **View on online Expansion:** KR remains a leader in U.S. online grocery along with Walmart in terms of the number of stores that offer delivery/pickup as well as its ownership of immense customer data. Along with its continued focus on alternative profit streams and partnership with OCDO, KR is well positioned within the online grocery landscape in the U.S.
- **Cannibalisation from Online business:** Pre-Covid, KR had pointed to 50% sales incrementally as customers moved online; the nature of that dynamic is more precarious today, but we assume that KR's position as an online grocery incumbent has positioned it well to benefit from increased online adoption.
- **Impact on profitability:** Whereas e-commerce fulfilment options likely hurt margins today, they are one of the most important tools to engage with customers and to collect valuable first-party data. The business is almost margin dilutive today, but Ocado CFCs come on board in 2021 and KR's online margin profile may improve if throughput is strong.
- Additionally, mgmt has said that "it typically takes 3 to 4 years for a customer to become as profitable once they become a digital shopper"

Ahold Delhaize (Not covered)

Benelux, USA

Feedback summarized by Victoria Petrova
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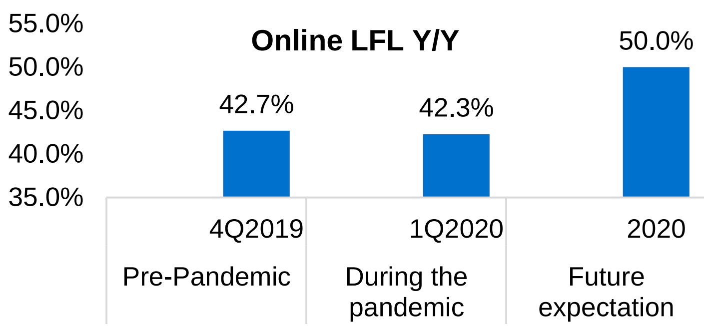
Company highlights (AD USA)



%click & collect beyond pandemic – 50%
Upcoming catalyst – The supply chain investment is a catalyst, management feels strongly that this initiative will improve quality of operations, sourcing, network design, packaging, and can help with private label manufacturing.

Company Comments

- **Expectation/Guidance** – 50% growth for FY 2020 (vs. +30% previously), 50%-50% mix of delivery/pickup by the end of 2021. Online sales could double as a percentage of the industry YoY, but profitability must be addressed via productivity improvement and, potentially, fee structures.
- AD has recently increased its pickup location target to over 1,000 locations in 2020 versus its initial target of roughly 1,000.
- **Long-term view** – AD believes that an agile network of MFCs is the right approach, but productivity needs to get better to achieve full automation; and that Click and collect will grow faster than delivery.
- **Supply chain capacity** – Investing $480 million to transform and expand its internal capabilities in the U.S. As part of the initiative, ADUSA is acquiring 3 DCs from C&S Wholesale Grocers and building two fully automated frozen warehouses (in partnership with Americold).
- **Competitive advantage** – AD remains focused on working with micro-fulfillment partners, and believes that a fairly dense network of MFCs across its store base is the right online fulfillment strategy. They also have one of the oldest and largest regional grocery home delivery offerings in Peapod.

Context

- **View on online Expansion:** AD's strategic priority is accelerating online sales in the U.S. ADUSA is investing in incremental associates and supplemental infrastructure, such as storage units, picking devices and stepping up the pace on the number of click-and-collect locations it plans to open this year. AD has strong assets and online grocery platforms in place, supported by its Peapod business, and plans to utilize its know-how from its European business to further accelerate growth in the U.S.
- **Cannibalisation from Online business:** AD is an omnichannel company and believes that the combination of physical stores and online options should increase AD's share of wallet.
- **Impact on profitability:** Profitability must be addressed via productivity improvement and, potentially, fee structures; accelerating its mix of pickup (vs. delivery) should help.

Grupo Carrefour Brasil

(Neutral, TP BRL22.5) - Brazil

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Beyond the Pandemic highlights (Company data, Credit Suisse estimates)

	Pre-Pandemic		During the pandemic	
Online LFL Y/Y			Apr-20	>100%
click & collect (% of online)	4Q19	c.40%	1Q20	c.15%
% online sales	4Q19	<0.5.%		
Max number of orders (1 day)			Mar-20	c.4,300

Company Comments

- **Online channel capacity** – Despite the strong acceleration in the e-commerce channel, the company states there is no operational bottleneck, mainly due to the operational groundwork of side stores the company has invested in the last 12 months, which also maintains a high service level.
- **Online delivery mode (% of online GMV as of 1Q20)** – Express delivery 47%; side store 36%; DC 15%; marketplace 2%

CS View

- **View on online Expansion:** Overall e-commerce penetration in Brazil is still incipient compared to developed countries (c.6% as of 2019-end) and food e-commerce has an even lower magnitude due to its higher operational complexity (e.g., dealing with fresh goods, expensive last mile solutions for low ticket orders, customer acceptance, etc). Hence, Brazilian companies are still some steps behind developed countries' groceries in terms of online capabilities. Nevertheless, we see both CRFB and PCAR ahead of competition as they have a large relevance nation-wide (market leaders in terms of sales and stores) and are already putting forth huge efforts to enhance online capabilities trying to anticipate an undeniable trend.
- **Cannibalisation from online business:** It is still too early to quantify cannibalisation from the online channel in food retailers in Brazil as the food e-commerce market is in very early stage (less than 1% penetration as of 2019-end) and, at the current stage, despite the sharp growth from a very easy comps, it is not meaningful enough to undermine physical sales.
- **Impact on profitability:** The company does not provide full visibility on profitability in the online channel. At the consolidated online channel (including both food and non-food) the company is still loss-making as it is still ramping up the channel. Worth mentioning that the high share of side store out of online food GMV (36%) is somewhat positive for this channel's profitability.

Grupo Pão de Açúcar

(Outperform, TP BRL112) - Brazil

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Beyond the Pandemic highlights (Source: Company data, Credit Suisse estimates)

	Pre-Pandemic		During the pandemic	
Online LFL Y/Y	4Q19	+40%	Apr-20	100-250%
Market share (online grocery)	4Q19	c.70%		
% online sales	4Q19	0.7%	1Q20	1.5%
Online margin			1Q20	>0%

Company Comments

- **View on online expansion:** Overall e-commerce penetration in Brazil is still incipient compared to developed countries (c.6% as of 2019-end) and food e-commerce has an even lower magnitude due to its higher operational complexity (e.g., dealing with fresh goods, expensive last mile solutions for low-ticket orders, customer acceptance, etc.). Hence, Brazilian companies are still some steps behind developed countries' groceries in terms of online capabilities. Nevertheless, we see both CRFB and PCAR ahead of competition once they have a large relevance nationwide (market leaders in terms of sales and stores) and are already putting forth huge efforts to enhance online capabilities trying to anticipate an undeniable trend.
- **Online channel capacity** – Despite the strong acceleration in the e-commerce channel, the company states there is no operational bottleneck, as they increased the staff (2k employees) while they keep rolling out omnichannel initiatives.

CS View

- **Cannibalisation from online business:** It is still early to assess cannibalisation from online channel in food retailers in Brazil as food e-commerce market is in very early stages (less than 1% penetration as of 2019-end) and, at the current stage, despite the sharp growth from a very easy comps, it is not meaningful enough to undermine physical sales.
- **Impact on profitability:** According to the company, as the largest portion of online sales is leveraged on existent assets (mainly physical stores), there is no significant additional costs related to e-commerce and, hence, the e-commerce contributes with a positive Ebitda.

Asia

E-Mart Co. Ltd

(Outperform, PT W153,000) – South Korea

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Beyond the Pandemic highlights (Source: Company data, Credit Suisse estimates)

	Pre-Pandemic		During pandemic		Future expectation	
Online Y/Y (SSG.COM)	FY19	22.7%	1Q20	40.5%	FY22E	30.0%
Market share (online retail)	FY19	2.6%	FY20E	3.4%	FY22E	5.5%
Market share (online grocery)	FY19	6.8%	FY20E	8.4%	FY22E	9.8%
% of grocery	FY19	40%	1Q20	50%		
Online grocery sales YoY	FY19	30%	1Q20	>50%		
% online sales of total E-Mart	FY19	13%	1Q20	15%	FY22E	22%
Online OPM	FY19	-3%	FY20E	-2%	FY22E	0%
Online Capacity (order/day)			2Q20	120,000		

Upcoming catalyst – 3Q20 result (Nov-20), announcement of investment/expansion of additional fulfilment centre.

Company Comments

- **Expectation/Guidance** – SSG.COM's GMV grew ~40% in 1H20. The company sees strong momentum continuing toward 2H20 although it may see some slowdown in terms of YoY growth on high base effect from 2H19.
- **Long-term view** – Online grocery business could be a game changer, as they should be able to replicate their strong brand equity as offline grocery retailer to the online channel. Their competitiveness lies in their expertise in grocery retailing as well as its fulfilment centers that should lead to operational efficiency As the scale grows, loss from the online business could be reduced in the long-term.
- **Supply chain capacity** – SSG.COM currently has 120k order capacity per day, and will further increase its capacity in the future.
- **Competitive advantage** – Solid omni-channel strategy as E-Mart operates 140 hypermarket stores in Korea, which are used as PP (picking & packing) centre for its online business.

CS View

- **View on Korea online grocery market:** Online grocery penetration should continue to grow on: (1) increasing user base thanks to improved convenience; and (2) the F&B companies' focus on expanding distribution through the online channel.
- **View on SSG.COM:** We expect Emart's online market share to continue growing, led by the grocery and daily necessities categories, and that this will give opportunity to drive a quicker turnaround in the currently loss-making online business.
- **Impact on profitability:** We currently forecast reduced losses for SSG.com, on improving scale effect. Also, similar to other leading e-commerce companies, it could continue to control promotion/marketing costs in the current environment when end-demand remains strong.

Unless otherwise indicated, all prices are taken at the close of the trading session of the pricing date quoted.

Companies Mentioned *(Price as of 20-Aug-2020)*

Ahold Delhaize (AD.AS, €26.12)
Alibaba Group Holding Limited (BABA.N, $257.97)
Alibaba Group Holding Limited (9988.HK, HK$255.0)
Amazon com Inc. (AMZN.OQ, $3297.37)
BIM (BIMAS.IS, TL68.65)
E-MART Co. Ltd (139480.KS, W119,000)
Grupo Carrefour Brasil (CRFB3.SA, R$19.86)
Grupo Pão de Açúcar (PCAR3.SA, R$64.15)
HelloFresh (HFGG.DE, €43.88)
Mail.Ru (MAILRq.L, $28.55)
Migros (MGROS.IS, TL39.0)
Ocado Group (OCDO.L, 2418.0p)
Sainsbury (SBRY.L, 188.4p)
Sok Marketler (SOKM.IS, TL12.61)
Tesco (TSCO.L, 225.0p)
The Kroger Co. (KR.N, $35.92)
WM Morrison Supermarkets (MRW.L, 196.55p)
Walmart Inc. (WMT.N, $130.57)
X5 Retail Group (PJPq.L, $38.08)
Yandex (YNDX.OQ, $63.63)

Disclosure Appendix

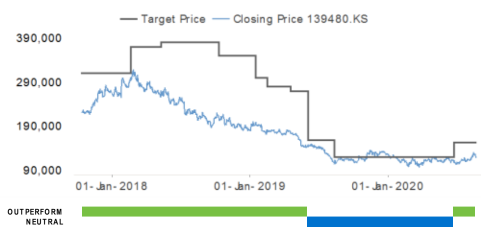
Analyst Certification

I, Victoria Petrova, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for E-MART Co. Ltd (139480.KS)

139480.KS Date	Closing Price (W)	Target Price (W)	Rating
13-Oct-17	221,000	310,000	O
20-Feb-18	295,000	370,000	
11-May-18	261,000	380,000	
10-Oct-18	212,500	350,000	
15-Jan-19	197,500	300,000	
15-Feb-19	177,000	280,000	
18-Apr-19	174,500	270,000	
03-Jun-19	147,000	158,000	N
12-Aug-19	105,500	120,000	
24-Jun-20	111,000	153,000	O

** Asterisk signifies initiation or assumption of coverage.*



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