



LARGE-SCALE DISTRIBUTION AFTER THE HIGHS OF 2020

*After an exceptional 2020, the same structural issues re-emerge in the new normal:
decreasing margins, unprofitable e-commerce, discount stores growing
Esselunga and Eurospin lead the way in terms of profits, but "hidden" champions also
performed well
Drugstores in Italy: total sales of €3.6bn in 2019
Sustainability: reporting requires improvement but performances are good*

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The **Mediobanca Research Area** today presented the new version of its survey on **large-scale distribution, Italian and international, with a focus on the food industry** in particular. The survey combines the earnings and financial data of 117 Italian firms plus 27 of the leading international players for the 2015-19 period. For Italy alone, coverage is estimated at some 93% of the market. The report also contains analysis of **32 Italian drugstores** plus a focus on the **sustainability of the large-scale distribution industry** in Italy and elsewhere. The complete survey is available for download from www.areastudimediobanca.com

2020 and beyond

In **2020 the large-scale retail distribution industry** is expected to deliver an increase of 5%, 1% of which is attributable to the explosive growth in the online channel. Pronounced increases were posted by discount stores (up 8.7%), supermarkets (up 6.8%), and drugstores (up 6.6%). The system as a whole is expected to retreat by some 1.6% in 2021, meaning that the combined increase for the two years as a whole will be 3.3%. The ongoing crisis in large retail surface areas shows no signs of letting up, with this segment expected to post a 4.8% reduction in the 2020-21 two-year period. **E-commerce (up 60% in 2021) could reach 3% of the market in 2021**, two years ahead of the date envisaged prior to the Covid-19 pandemic (2023). Despite this, the e-commerce segment continues to record margins that are negative by more than 10%. In 2020 **the Italian market's concentration** increased further: the market share held by the top five retailers was 57.5%, compared with 52.8% in 2019. Thus the Italian market is more concentrated than the Spanish one (50%), but still more fragmented than the markets in France (78.1%), the United Kingdom (75.3%) and Germany (75.2%). In 2020 **Conad held the highest market share of all operators**, with 14.8%, followed by Selex with 13.7% and the Co-op with 12.9%. In 2011 Co-op had been the leading group with a market share of 15.3%, followed by Conad with 10.6% and Selex with 8.1%.^[1]

Preliminary data for the leading listed international retailers show sales up 8.3% in 2020, with very positive effects at the levels of both industrial margins (up 17.1%) and net profit (up 42.4%).

^[1] Data compiled by Mediobanca Research Area based on Coop report for 2020, Conad report for various years, market consensus and Damodaran Online (New York University).



Margins declining in 2015-19, the real challenge for 2021

The ROI for the system fell from an average of 5.6% in the 2015-17 period to 4.9% in 2019. This downward trend was reflected in all segments, albeit to very different degrees: the discount stores posted a reduction in the ROI from 20.1% to 16.6%, organized distribution from 8.8% to 7.8%, and large-scale distribution from 6.7% to 4%. **A similar trend was recorded at the Ebit margin level:** which reduced from 2.5% in 2015-17 to 2.1% in 2019, the discount stores on this occasion growing slightly from 4.7% to 4.9%, while organized distribution declined from 2.8% to 2.4% and large-scale distribution from 2.9% from 1.9%. For Conad the reduction was from 2.5% to 1.8%, whereas for Coop, over the five years as a whole, a negative performance was recorded at the Ebit margin level, which in 2019 stood at minus 1.4%. **The 32 Italian drugstores included in the survey** delivered a positive performance in 2019, posting total sales of €3.6bn, up 5.1% on the previous year, with an Ebit margin of 4.6%, and a ROI of 12.3%. Overall the total workforce is made up of nearly 13,000 employees.

Interesting aspects in the individual operators' accounts

Lidl Italia is the stand-out performer in terms of growth in total sales between 2015 and 2019, posting annual average growth of 8.7%, followed by Eurospin and Agorà, both with growth of 7.6%. These were followed by Lillo-MD (total sales up 6.9%), VEGÉ (up 5.3%), and Crai (up 5.2%). **In terms of the return on capital invested (ROI), Eurospin came out top with 20.2%**, followed by Lillo-MD (16.5%), Agorà and Lidl Italia with 12.9%, and Crai with 11.9%. All the other operators delivered single-digit results, led by VEGÉ with 9.1%. **Supermarkets Italiani again led the way by cumulative profits earned between 2015 and 2019** with €1,340m, followed by Eurospin with €1,016m, Conad with €879m, and VEGÉ with €839m. Carrefour has accumulated losses totalling €603m and Coop losses totalling €252m. **Coop Alleanza 3.0 is the leading Italian co-operative**, with total sales in 2019 €4,043m, followed by PAC 2000 A (Conad group) with €2,851m, and Conad Nord Ovest with €2,586m, ahead of Unicoop Firenze with €2,320m. **The shareholders' loan in force in the cooperative system continues to fall**, from €11.1bn in 2014 to €8bn in 2019. In the last five years the cooperatives have generated net interest income of €1,233m, against writedowns totalling €845m.

"Hidden champions" deliver growth and profitability

The organized distribution segment comprises several companies of substantial size. **Some twenty companies post annual total sales in excess of €500m**, ranging from Finbre (Maxi Di) with €2,124m to Poli with €506m. **Some of these delivered impressive performances in terms of ROI in 2019:** Verofin (Tigros) with 18.2%, Gruppo Arena with 18%, SC Evolution (Iperal) with 15.8%, Supermercati Tosano Cerea with 15.3%, Cannillo (Maiora) with 15.2%, and Mega Holding (Megamark) with 15%. These twenty operators together posted aggregate turnover of €20.6bn, reflecting growth of 5.9% in 2019, with an average ROI of 7.9%. **Overall these companies rank just behind the discount operators, but with a ROI that is roughly one-half.**



Leading international players

In 2019, the leading international retailers included in this survey posted total sales ranging from €463bn posted by WalMart to the €18.6bn reported by Portuguese firm Jeronimo Martins. These operators generate 20% of their turnover via points of sale located outside their countries of origin: the retailer with the most pronounced international focus is Dutch group Ahold Delhaize, which generates 77.6% of its total sales from exports, followed by Jeronimo Martins which exports primarily to Poland (73.3%), followed by French groups Auchan (62%) and Carrefour (52%). **The panel reflects an average ROI of 9% in 2019**, continuing to decrease from the 10.9% in 2015. In the **ranking by ROI, which includes both Italian and international retailers**, top ranking goes to Australian group Coles (31.3%), followed by Eurospin of Italy (20.2%), Woolworths, also Australian (with 19.8%), US-based Target (18%), and Lillo-MD, also of Italy (with 16.5%). The two Spanish and Portuguese companies also performed well: Jeronimo Martins (13.6%), and Mercadona (13.3%). Lidl Italia posted a ROI (of 12.9%) higher than that of its German parent company Lidl Stiftung (8.8%). **Supermarkets Italiani ranked first internationally by domestic sales per square metre**, with €15,900, ahead of the UK-based J Sainsbury with €13,600, Tesco with €11,500, and Wm Morrison with €11,200, and ahead of the two Australian companies Woolworths (€10,700) and Coles (€10,400).

Environmental sustainability in Italian and international large-scale distribution

The operators in the large-scale distribution sector deal at length with sustainability issues in the relevant sections of their own websites; 87.3% of the Italian groups and 96.5% of the international groups have dedicated sections specifically on sustainability issues. Dedicated reports are rarer in Italy, with 62.5% of the total producing them, compared with 96.4% of the international groups. In some of the areas measured analytically, the **Italian retailers are largely aligned with the leading international players. With respect to human resources**, in 2019 women accounted for 62.9% of the total workforce in Italy, compared with 60.3% elsewhere; as for training, a total of 16.3 hours' training was provided to those entitled to it per annum, as against 21.6 elsewhere; whereas 52% of the workforce in Italy is employed part-time, compared with 43.8% in the other countries. **On environmental issues:** the share of waste recycled in Italy was equal to 75.1%, compared with 71.7% elsewhere. On energy intensity Italy is aligned with the rest of the world, at approx. 450 kWh per sq.m., but the Italian retailers have less of an impact on the environment in terms of carbon intensity, generating 136 kg of CO² per sq.m., compared with 208 kg by the other countries.