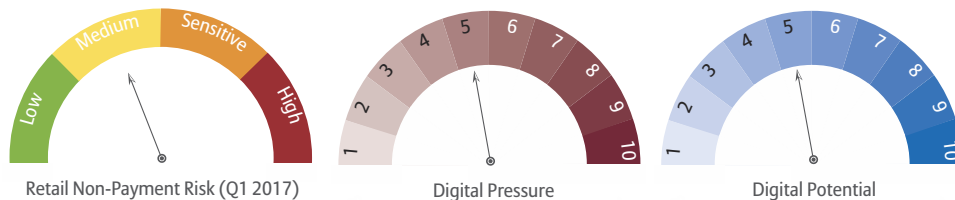




# Retail in Italy

## Push and pull



- Retail sales were back in negative territory starting 2017, due to declining consumer confidence and slowing private expenditures.
- The financial situation of Italian retailers has suffered a sharp deterioration: net gearing soared from 36% to 250% from 2011 to 2016.
- Luxury and niche retailers focusing on sustainability enjoy a sound outlook. But the home & office and electronics segments employed discounting strategies putting profitability at risk.

### Resistance to digital

After a short period in positive territory, retail sales have decreased since December 2016 (-0.2% y/y end of March). Wages are set to stall (+1.1% in 2017 and 0% in 2018) and consumer confidence is forecast to deteriorate further. This gives little hope for a turnaround in 2017.

The Italian retail market is an extremely concentrated one, particularly in the food and drug segments. The well-established and integrated players have been in business for such a long time that

disruption seems unlikely. For instance, the top 10 luxury fashion retailers' average establishment date is 1932. Unexposed to pressures from new entrants, top brands have little impetus to change. Customers on their part are quite reluctant to experiment with new shopping formats and prefer a traditional shopping experience in-store. E-shoppers only represent 34% of the population, a figure significantly lower than the European average (43%), as the need for a human touch is real, even as users' journeys become digitized. Another

stumbling block to online payments is Italians' entrenched fear of credit card fraud. To succeed, companies should focus on efficient and secure online experiences.

### Unsustainable company debts and a public passion for sustainability

The sharp deterioration in Italian retailers' financial situation over the last 6 years, is manifested in the indebtedness ratio peaking at 250% (up from 37% in 2011). Two major failures affected the food segment in 2016. Cedi. Sisa Centro Sud and Cedi. Sisa Sicilia was overwhelmed by high leverage and declining demand. Yet overall profitability remained at a satisfying level with an EBIT of 8.5% in 2016. In this context, Euler Hermes analysts see retail in

Italy facing a Moderate risk of non-payment.

Given the reluctance to take the leap to digital and the strong feelings Italians have about sustainability, challenges prioritization from the Euler Hermes Digital Retail survey ranks as follow: (#1) tap into big data; (#2) mitigate reputational risk and (#3) sustainable sourcing, particularly in the apparel segment.

Italy's logistics—the country ranks 21st out of 160 in the World Bank LPI stressing a weakness in customs' operations - provide retailers room for improvement to implement an innovative supply chain and delivery model.

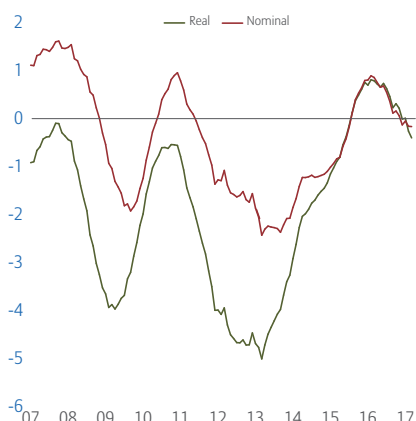
### Looking forward: What does it all mean for businesses?

Currently, the Italian market is neither ready nor eager to change. Adding to the gloomy economic environment, companies are torn between a passive decline and disruptive investments that are likely to prove unprofitable. One solution could take the shape of improved advice for consumers, providing customers with intuitive digital device services in-store.

✓ Promising sub-sectors: Luxury and niche retailers focusing on sustainability are the best placed to meet future challenges

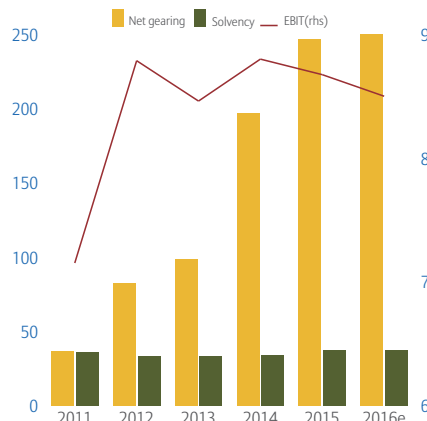
✓ Sensitive sub-sectors: Home & office and electronics segments suffered from discounting strategies which hurt their profitability. ■

**Chart 1** Retail sales in Italy in %, 12m/12m, as of March 2017



Sources: IHS, Euler Hermes calculations

**Chart 2** Financial performances of Italian listed retailers



Sources: Bloomberg, Euler Hermes calculations