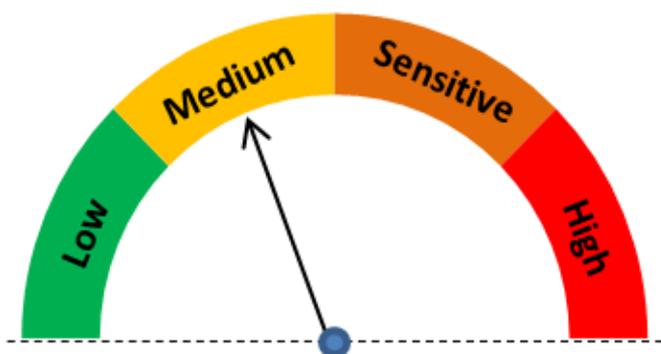


## Sector Risk Rating



## What to Watch?

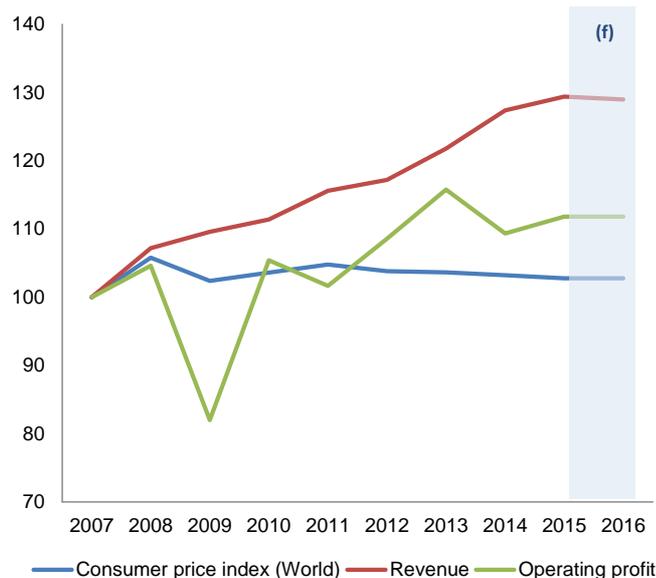
- Global growth, expected to surpass +3% as early as 2016
- Improvement of households' wealth in India (real private consumption to grow +8% in 2015-16)
- Higher M&A activity in North America and Europe (especially in France), potentially undermining the supply chain
- Ability to adjust business models towards omnichannel sales helping to shore up market shares

## Traditional Retailers Face Challenges with their Business Models

Retail sector reflects faithfully global economic climate. Growth momentum is resilient... at the cost of margins. Retail sales and the Consumer Price Index both grew at a compound annual growth rate of +3% between 2010 and 2014. During the first half of this period, the trend was fueled by strong growth in emerging economies, which has since shifted to Europe the US. We forecast consumer spending to increase by +2% in the EU, +3% in the US and +7% in China during 2015.

However, there has been never-ending increase in retail space. Combined with the harsh competition brought by online pure players, a price war has emerged, causing profits to diminish. Operating income of the top 20 listed Retail companies decreased by an average -2% per year between 2010 and 2014. This has forced many to rethink their business model, particularly in regards to Digitalization. After bottoming out in 2014 (-13%) due to massive restructuring led in North America and the UK, we expect operating profits to rise by +4% in 2015.

Average Revenue and Profit for the Top 30 publicly traded Retailers vs. Consumer price index (Index: 2007=100)



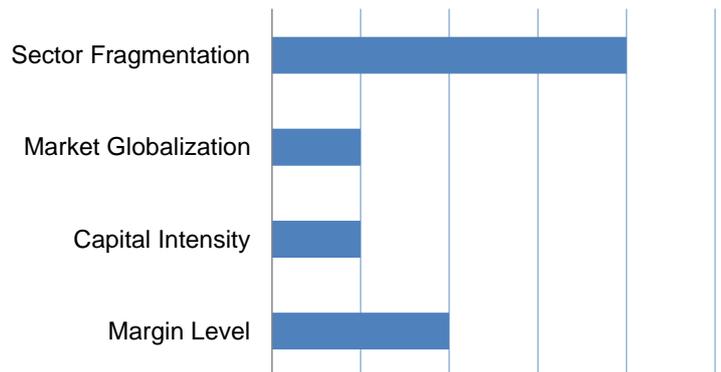
Sources: Bloomberg, FMI, Euler Hermes

Sector Value:  
**7,294bn**  
 USD

## Key Players

Country	Role	Sector Risk
<b>United States</b>	#1 exporter #1 importer #2 producer	●
<b>China</b>	#2 importer #3 exporter	●
<b>Japan</b>	#1 producer #3 importer	●

## ID Card



## Strengths

- Well established players with efficient pricing power relative to suppliers
- In-store currently the preferred format for customers to purchase goods

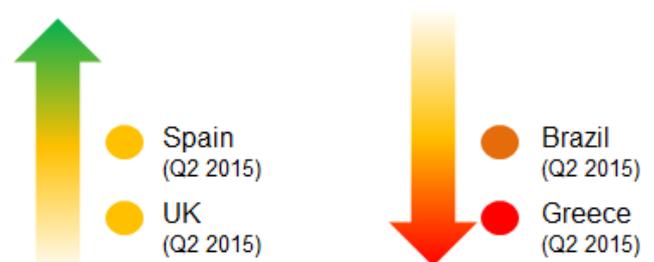
## Weaknesses

- Low added value activities, relying on volume to drive profits
- High competition pushing prices downward
- Business models challenged by new entrants (pure players) and consumption behaviors (social media impact)

## Subsectors Insights

The boundary between **Grocery** (Food and Beverages, Home appliances) and **Non-grocery** retailers (furniture, sporting goods, office supply, etc.) has become increasingly blurry as a result of the unremitting product range diversification by Groceries. This trend stems from the race for revenues and is aggravated by the development of omnichannel sales.

## Recent Sector Risk Changes



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