

COVID-related “protective forces”, coupled with high household savings levels, pent-up “lockdown demand” and solid labour market conditions provided strong momentum for retail sales in 2022, despite a backdrop of rapidly deteriorating consumer sentiment from around March. Retail sales grew by 11.4% to \$411.5 billion in 2022, compared to 5.5% in 2021. Considering annual CPI growth of 7.8% to December 2022, underlying volumes grew more slowly, than the headline 11.4% suggests.

Online retail sales growth was only 1.8% in 2022, cycling extraordinary pandemic-driven growth experienced through online channels in 2020 (37.6%) and 2021 (19.2%). The lower growth reflected a rebalance back to in-store purchases during 2022.

Global geopolitical factors, rising interest rates, inflation, and escalating cost of living pressures dominated the media landscape and weighed on the consumer psyche, resulting in persistent declines in consumer sentiment levels throughout 2022, finishing the year at a very pessimistic index of 80.3, 23% below December 2021.

As the impact of the COVID-related “tailwinds” lessens and more macroeconomic “headwinds” impact consumer sentiment and spending. We anticipate 2023 will be a more challenging environment for retailers.

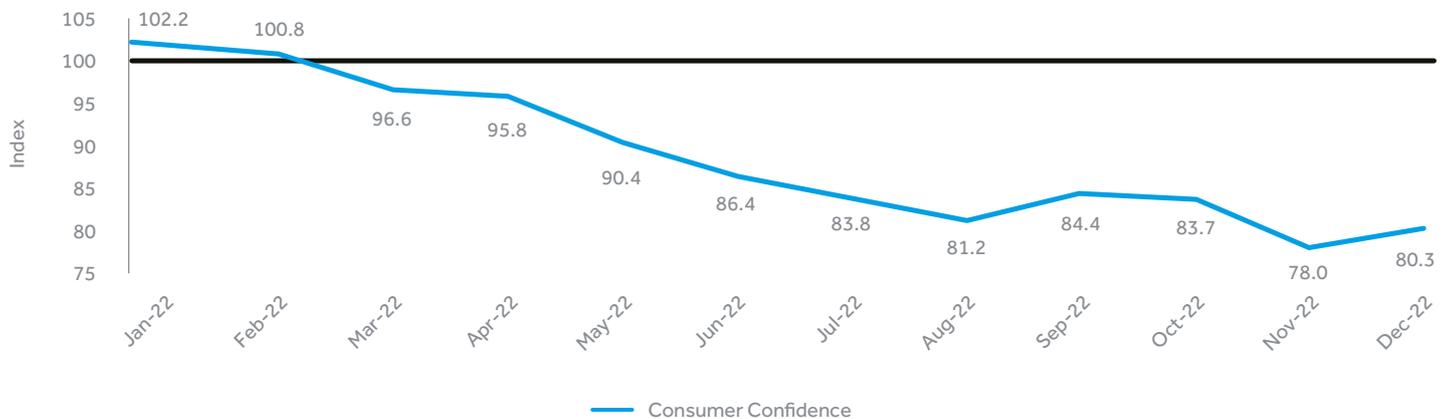
Key themes from 2022

- Multiple legacies from the pandemic–boosted government spending, the reopening surge / “freedom spending”, high levels of household savings and strong labour market conditions.
- Consumer spending habits began to return to pre-pandemic patterns. Other options for spend, such as eating out, travel and tourism, competed for consumers spend.
- Inflation and cost pressures intensified throughout the year, leading to margin compression for retailers as input costs increased, while the ability to pass on those costs to consumers became more limited.
- Consumers became increasingly deliberate in their spending, with growing cost of living pressures causing them to become more “value conscious”. Signs of “trading down” became prevalent later in the year, so did a focus on sale events, particularly in November 2022.
- Intensifying competition between retailers to capture consumer spend, with retailers using marketing tactics and loyalties/discounts to increase or at least maintain customer spending.
- Increase in values-based considerations including environmental consciousness and awareness, with consumers wanting to buy ethically and sustainably and focussing on provenance.
- Supply chain disruptions and distribution challenges at the start of the year meant many retailers shifted from a “just in time” to a “just in case” inventory management approach, resulting in elevated inventory levels throughout the year.
- Increasingly frequent and sophisticated cyber-attacks, targeting the vast amounts of customer data held by retailers.
- Ongoing pressure on staff availability and costs.
- Increasing attention placed on wages underpayments.

2022 IN REVIEW

CONSUMER SENTIMENT FELL 23% IN 2022

Westpac Melbourne Institute Consumer Confidence Index (2022)



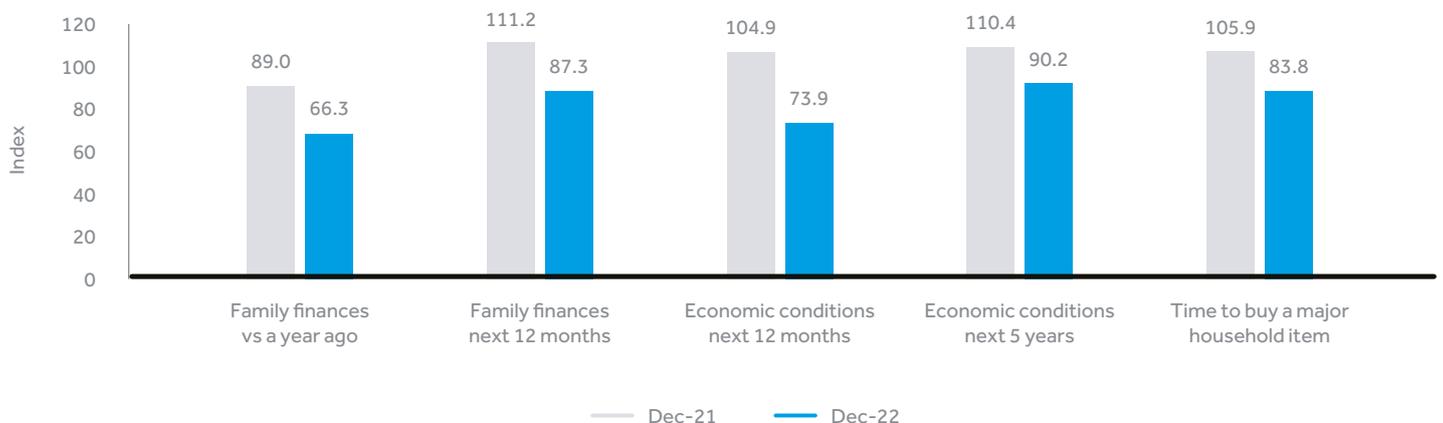
Consumer sentiment deteriorated materially throughout 2022. The index fell into pessimistic territory in March 2022, after 17 consecutive months of optimistic readings, ultimately falling by 23% during the 2022 calendar year (December 2021 vs 2022) and ending 32% below the high point in April 2021.

Pessimism peaked in November (78.0), exceeding the worst levels recorded during the Global Financial Crisis (79.0 in July 2008) and was only slightly above the lowest reading recorded during the first COVID-19 wave in April 2020 (75.6).

Plummeting consumer sentiment was initially driven by key macro disruptors, including Russia's invasion of Ukraine and the flooding event on the Eastern seaboard, but has more recently been dominated by growing cost-of-living concerns linked to inflation and then interest rate rises, which increased from 0.1% in May to 3.1% in December 2022. The eight consecutive interest rate rises in 2022 were the first increases since 2010 and contributed to declining household net wealth, also linked to falling residential property values.

We do not see an obvious driver of relief from cost-of-living pressures for at least the first three quarters of 2023.

Consumer Sentiment - component index performance

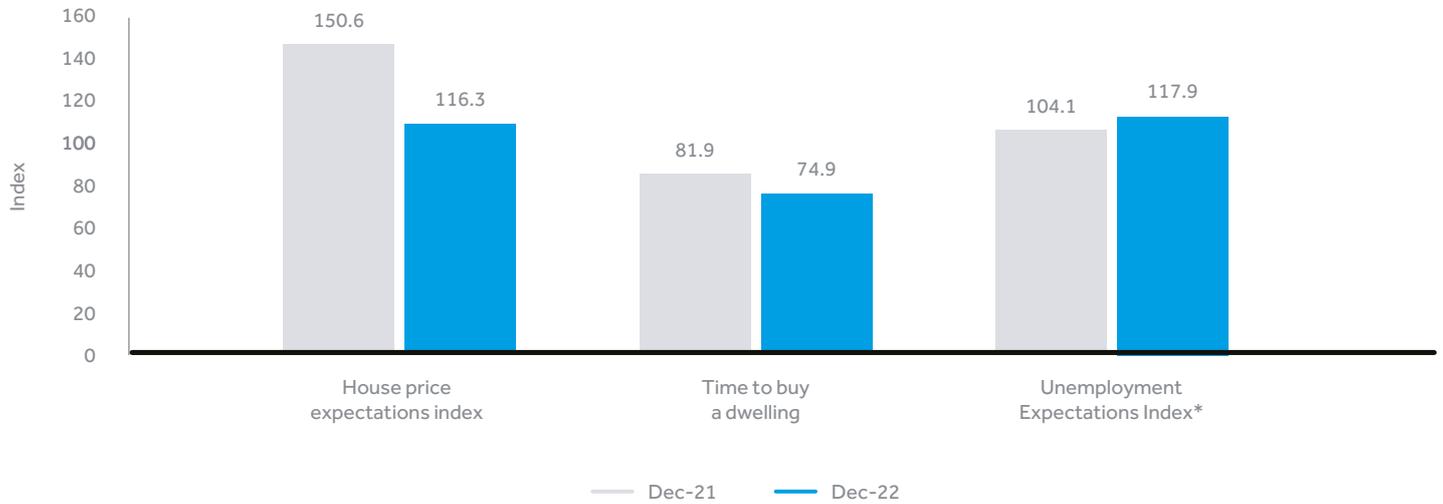


All five consumer sentiment component indices deteriorated compared to their December 2021 levels. The component index tracking 'family finances vs a year ago' declined 25.5%, on top of being the only one to start the year in pessimistic territory, demonstrating the severe cost-of-living pressure on households.

Each of the component indices tracking expectations deteriorated materially (albeit off a higher base) implying consumers generally expect conditions to worsen in the immediate to medium term (noting the measure tracking 'economic conditions next 5 years' remains the least pessimistic of all the component indices).

2022 IN REVIEW

Consumer sentiment - related indices



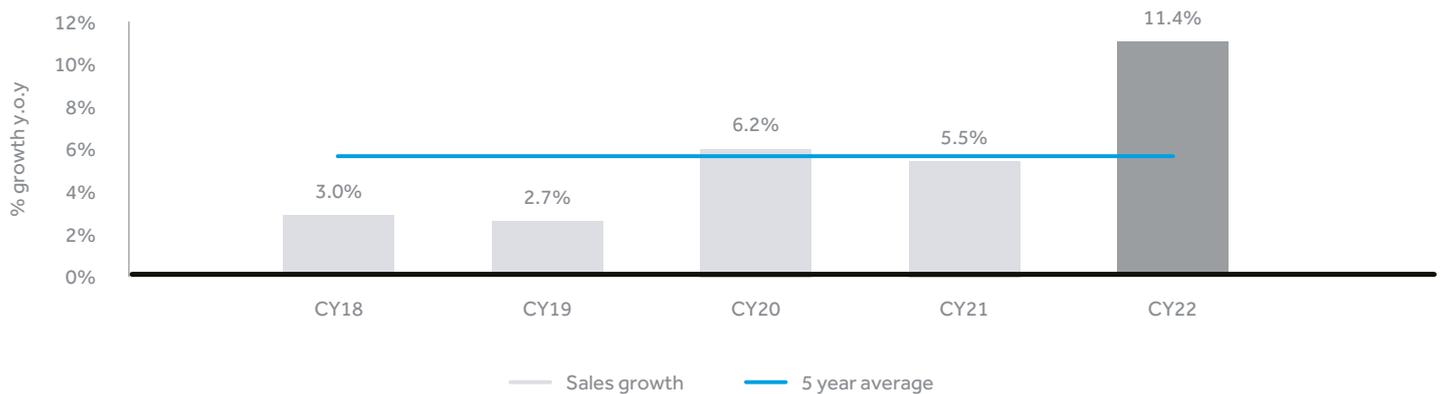
* Note that a lower read on the Unemployment Expectations Index means more consumers expect the unemployment rate to fall over the next 12 months.

While the national unemployment rate reduced from 4.2% to 3.5% over the course of 2022 a level of uncertainty remained with the unemployment index increasing¹ and ending the year at 117.9 after reaching a low of 99.2 in April 2022. At 117.9 in December 2022, the index was still comfortably below the "long-run" average of 129.

The 'time to buy a dwelling' Index and 'House Price Expectations' Index were both down when compared to December 2019, 2020, and 2021 levels.

RETAIL SALES

ABS Retail sales



The Australian Bureau of Statistics (ABS) reported retail sales growth of 11.4% to \$411.5 billion in 2022 (seasonally adjusted) (vs CPI growth of 7.8% in 2022). Growth in retail sales outpaced GDP of 2.7% during 2022. Retail sales in 2022 were more than 25% above 2019 (pre-pandemic) levels, equating to additional spend of \$48.5 billion.

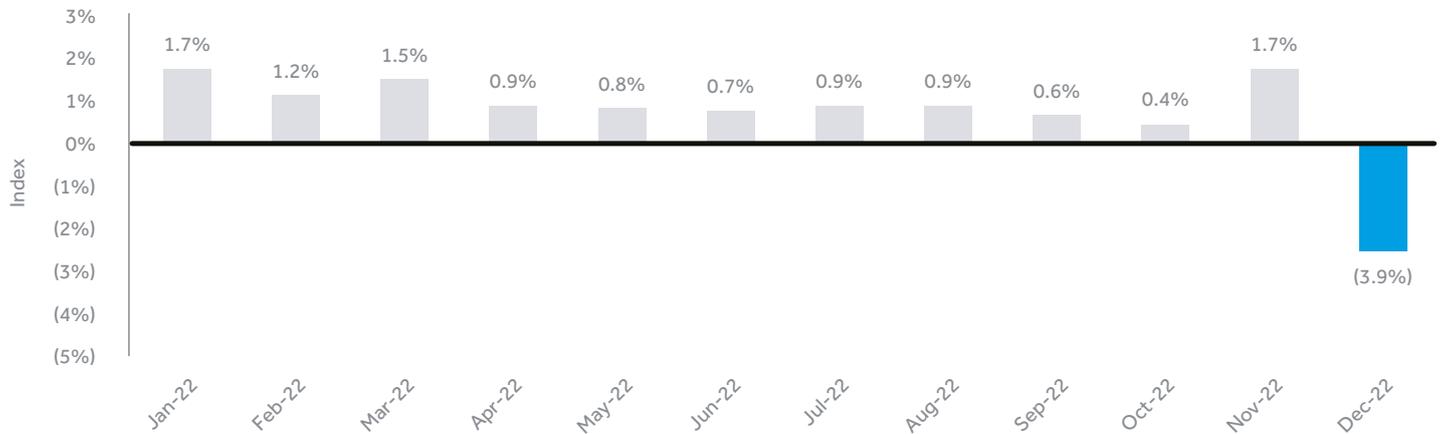
Retailers continued to benefit from tailwinds linked to the pandemic in 2022, with "freedom spend" / pent up lockdown demand continuing to elevate retail sales. High household savings levels and strong labour market conditions provided "protective forces", which mitigated growing consumer pessimism.

The graph below demonstrates the slowdown in momentum throughout 2022 as the impact of the tailwinds lessened and "headwinds" emerged.

1. An increase implies weakening confidence as the index measures expectations relating to unemployment, rather than employment.

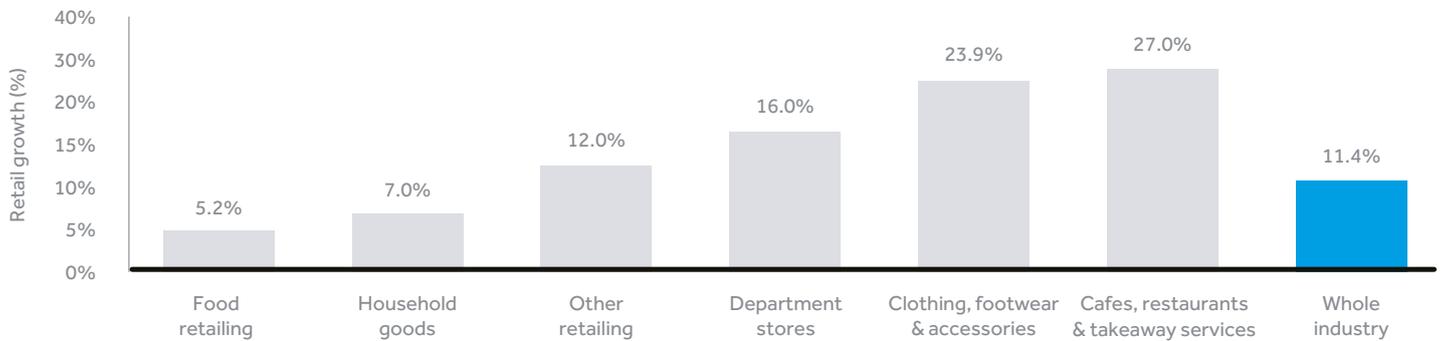
2022 IN REVIEW

ABS Retail sales by month



The material increase in November and decrease in December show the perpetuation of the “pull forward” of Christmas spend into November, attributed to the increased popularity of key sales events such as Black Friday and Cyber Monday. Despite showing a decrease compared to November, December sales were \$2.4bn (7.5%) above December 2021.

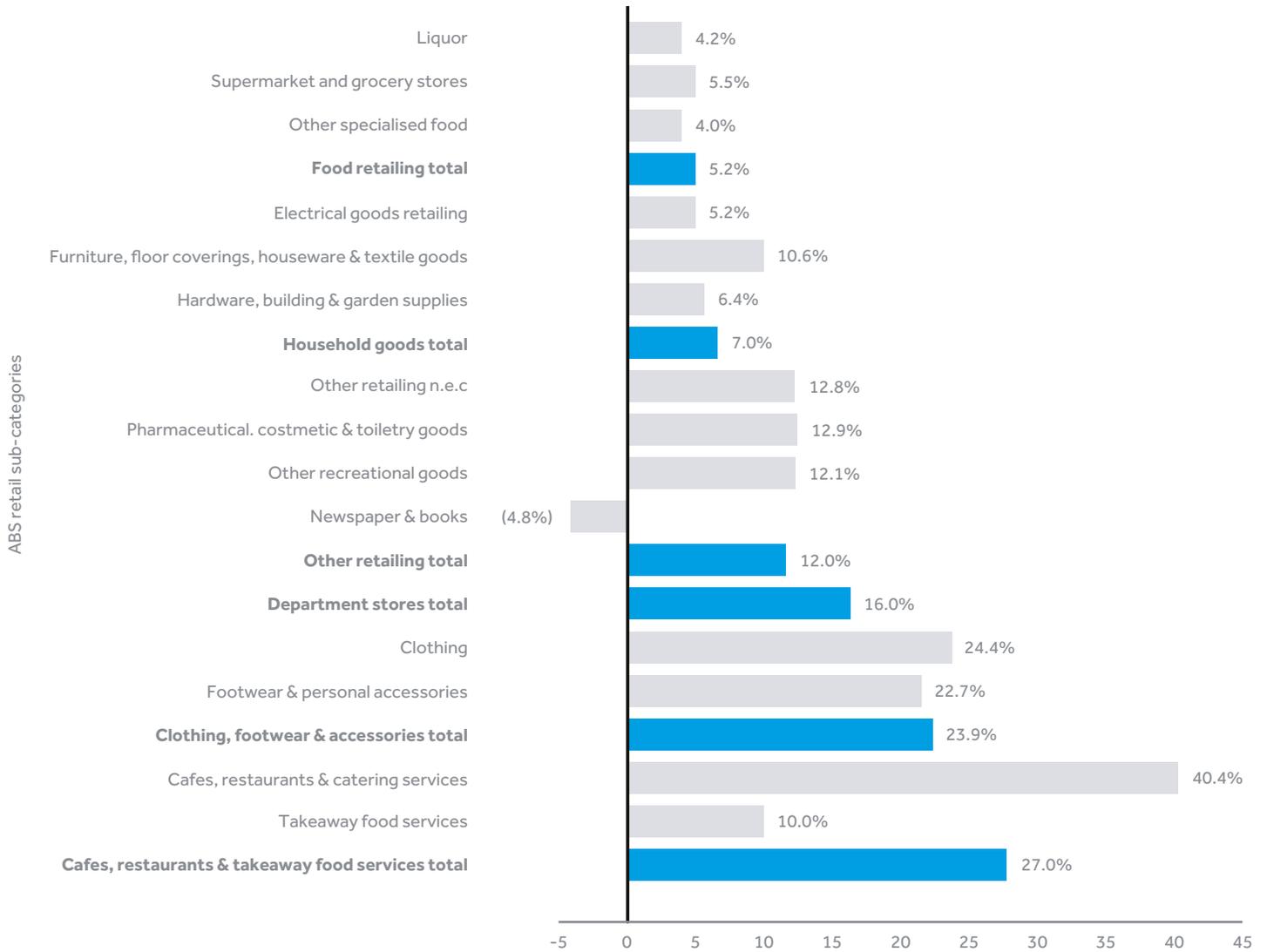
Retail growth by category



When considering performance by category, the more discretionary categories drove much of the growth with ‘cafes, restaurants, and takeaway food services’ experiencing the largest growth (27.0%), followed by ‘clothing, footwear, and accessories’ (23.9%) and ‘department stores’ (16.0%). The growth in these categories is linked to “revenge spending” connected with pent-up demand post COVID. There was also increased promotional activity in some of those sectors as retailers sought to unwind inventory positions. “Discretionary” categories are also the most susceptible to consumers reverting to normal spending and/or cutting back, as conditions normalise, and cost of living starts to bite. There was more noticeable slowing in these categories towards the end of 2022. The detail within categories is shown on the following page.

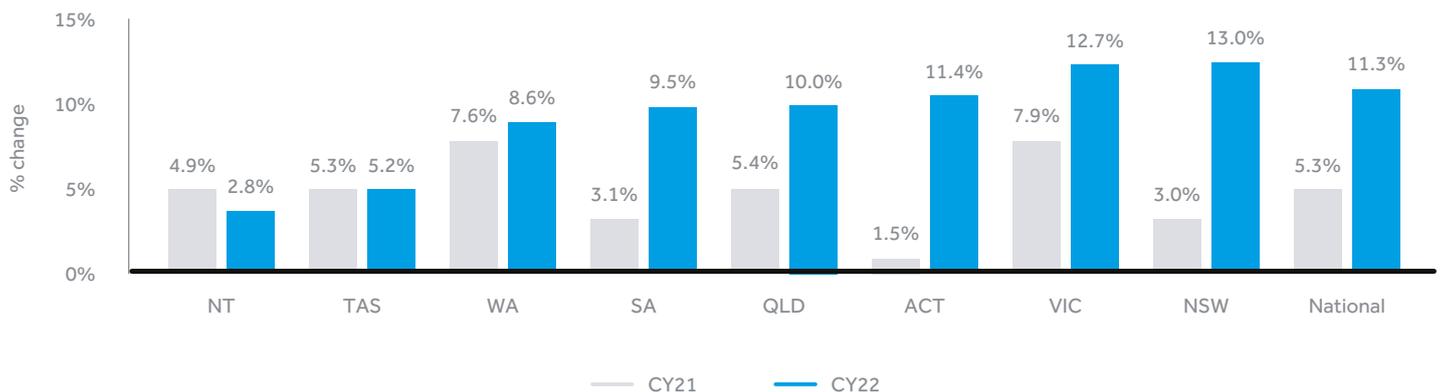
2022 IN REVIEW

ABS Retail sub-categories growth CY22 (vs CY21)



While all states experienced sales growth in 2022, Victoria and New South Wales showed the strongest improvement and grew faster than the national average.

ABS Retail Sales growth (YoY%) by state - CY21 v CY2

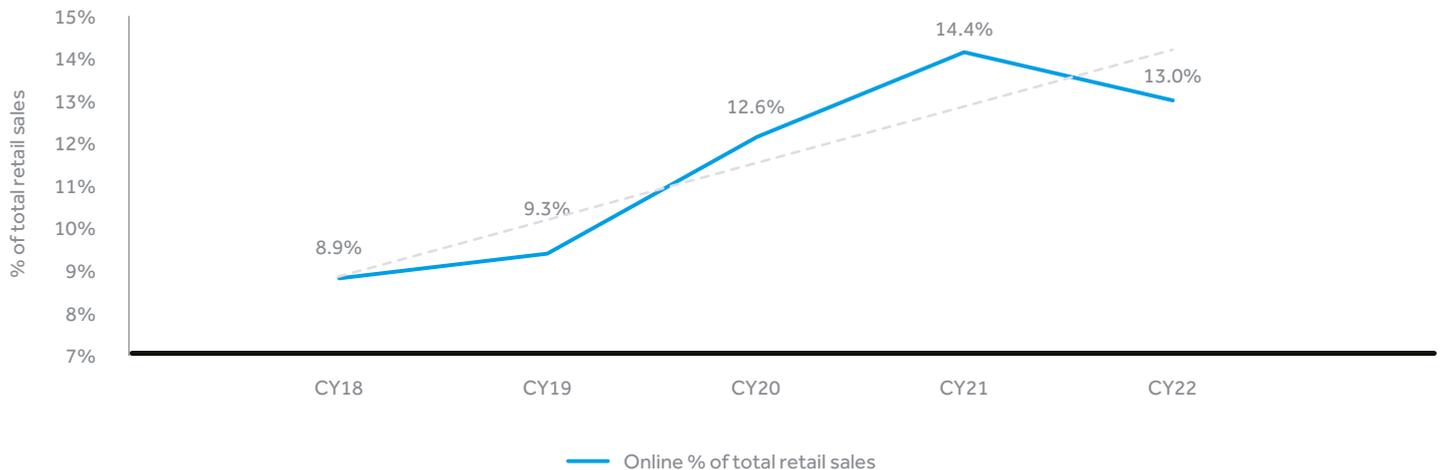
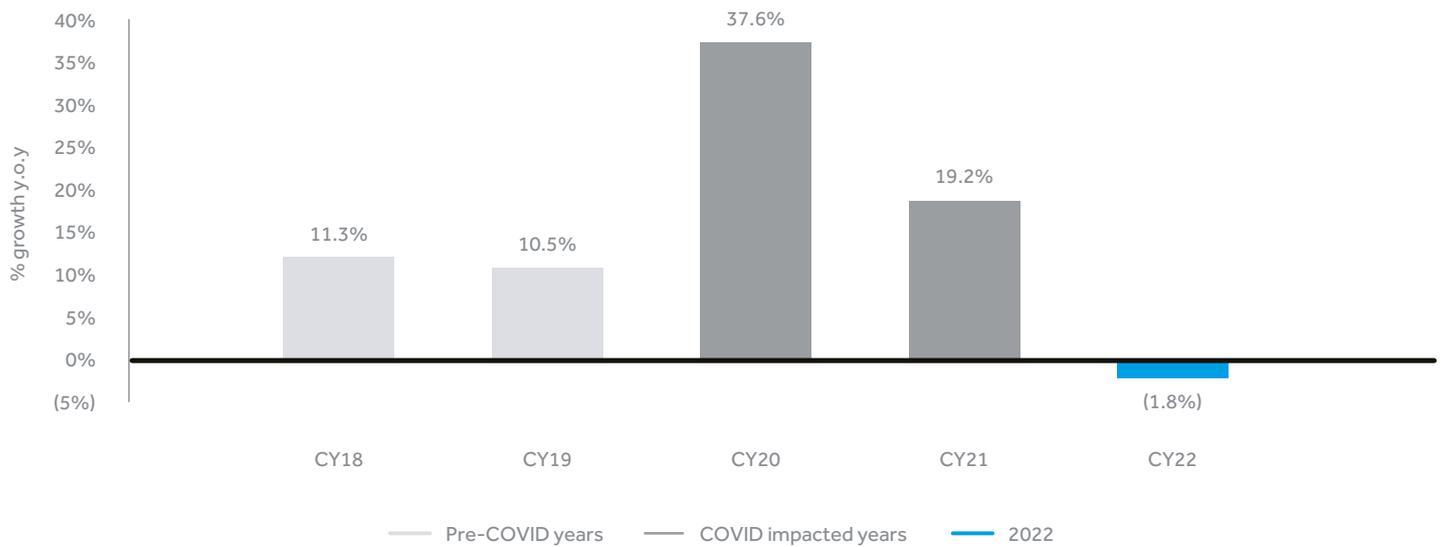


2022 IN REVIEW

Online Retail Sales

In the 12 months to December 2022, the NAB Online Retail Sales Index reported an online retail sales decline of 1.8% to \$53.3 billion (before adjusting for inflation), after two years of exceptional growth during COVID. While 2022 saw a slight decline off the huge growth in 2020 and 2021, online sales were still 74.5% higher than 2019 levels, equating to an increase in spend of \$22.7 billion (being c.50% of the total increase in retail sales over that period).

Online retail sales YoY growth



Online retail sales % of total retail sales

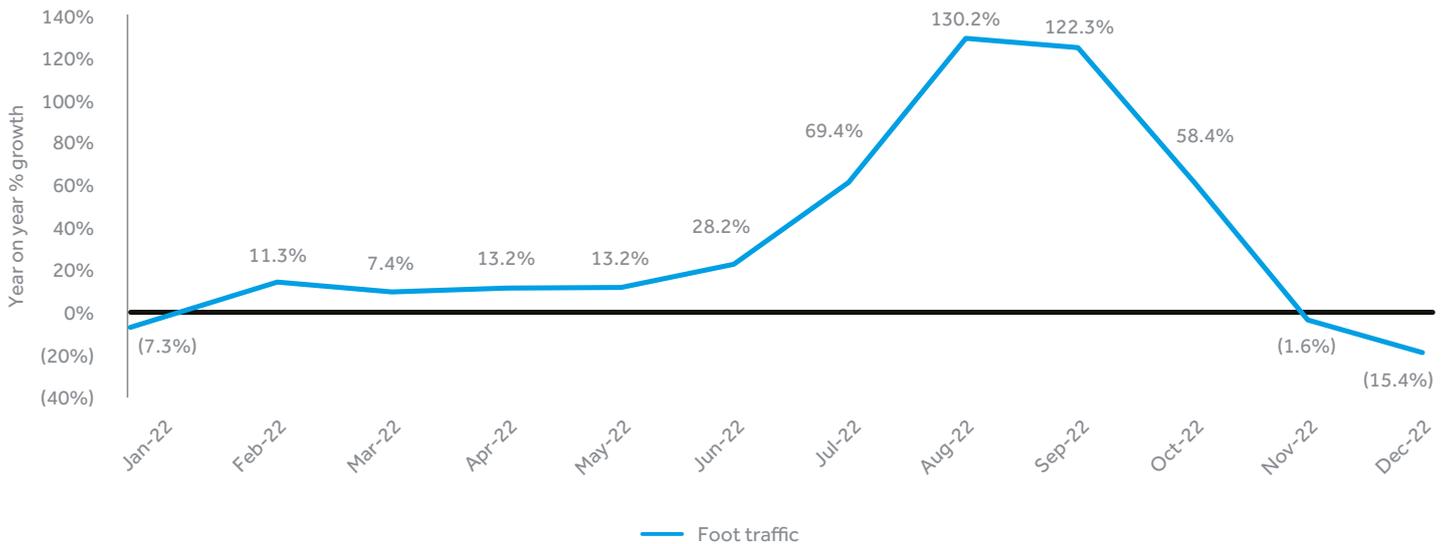
Online sales represented around 13.0% of retail sales (as reported by the ABS), down from 14.4% in 2021, suggesting a rebalancing of spend between online and bricks and mortar retail spend (albeit still at increased penetration levels compared to 2019). This adjustment and where the rebalance "settles" will present challenges for many retailers in determining their channel architecture and forecasting.

2022 IN REVIEW

FOOT TRAFFIC AND SALES CONVERSION

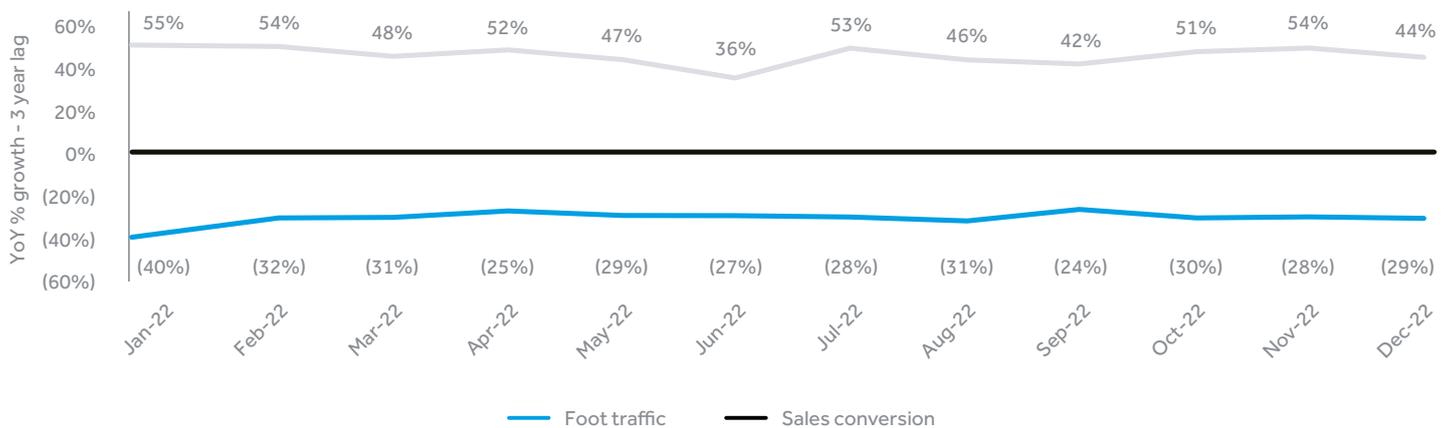
Kepler Analytics Retail Index reported a material increase in foot traffic in 2022, cycling COVID impacted months in 2021. The general increase in foot traffic was in line with rebalancing between channels and the growth in sales.

Foot traffic - CY22 vs CY21



While foot traffic increased in 2022, it still remained c.30% below pre-pandemic (2019) instore foot traffic levels. As shown below, sales conversion in 2022 was c.50% higher than 2019, suggesting that while traffic was down consumers were more deliberate in their shopping activity and purchasing behaviour.

Foot traffic v Sales conversion - CY22 vs CY19 (pre-pandemic)



2022 IN REVIEW

WHAT WE EXPECT IN 2023

In 2023, the retail environment is becoming more challenging. Rising interest rates, inflation-fuelled cost of living pressures, and stagnate/falling property values reducing on-paper wealth, all present headwinds. The tailwinds from high personal savings levels and pent-up demand or "retail therapy" has begun to unwind. Consumers will become more likely to opt out of discretionary categories or at least cut back/down trade.

Retailers will therefore face

- Increasingly "value-conscious" consumers, reducing their ability to pass on price increases and amplifying the importance of pricing/discounting strategies and product mix.
- Heightened competition for share of wallet from other sectors.
- Increasing margin pressures as input costs rise, in particular utilities and staffing costs.
- Consumers wanting to understand a brand's values, including sustainability commitments.
- Inventory management challenges when operating in a lower demand environment.
- The need for investment in an omnichannel strategy as online shopping continues at levels well above pre-pandemic levels.
- The threat of cyber-attacks as retailers digitise operations and store vast amounts of data.
- An easing of global supply chain issues, alleviating some cost pressures.

Retailers can improve their operations and capture opportunities by

- Maintaining market momentum by keeping brand awareness strong.
- Engaging with consumers through authentic brand values and regular, targeted communications.
- Reviewing company structure and fixed cost bases.
- Implementing comprehensive pricing and marketing strategies to capture "value conscious" customers.
- Reviewing cyber security strategies to ensure resilience against attacks.
- Optimising working capital management and supply chain transparency and efficiency.

2022 IN REVIEW

RECENT RETAIL ENGAGEMENTS

We have a breadth of current experience across participants in a range of retail sectors across our entire service offering. Overview of key retail engagements during 2022 and 2023 to date:

PROJECT	SERVICE LINE	ENGAGEMENT TYPE	RETAIL CATEGORY
Camilla	Advisory	Investment Transaction	Luxury fashion retailer and wholesaler
Liquor King	Advisory	Transactions	Liquor retailing
Project Bubble	Advisory	Creditor Advisory, Buy Side Diligence	Liquor retailing
Project Eleven	Advisory	Investigation - Regulatory	Food retailing
Project Modum	Advisory	Sell Side Diligence Services	Fashion - male apparel
Project Opal 2	Advisory	Capital Advisory	Apparel - women's
Project Spectre	Advisory	Buy Side Diligence Services	Fashion/health - eyewear
Project Taurus	Advisory	Pre-lending Due Diligence	Fashion/health - eyewear
Project Twelve	Advisory	Investigation - Regulatory	Food retailing
Project Wood	Advisory	Buy Side Diligence Services	Fashion/health - eyewear
Project Lilac	Forensic	Dispute - Independent Expert	Law firm
Project Note	Forensic	Investigations - Fraud & Corruption	Fashion - accessories
Project Primrose WUP	Forensic	Dispute - Independent Expert	Law firm
Project Sunflower WUP	Forensic	Payroll Advisory	Household goods, fashion
Project Toby	Forensic	Investigations - Fraud & Corruption	Household goods
Project Tote	Forensic	Investigations - Fraud & Corruption	Luxury fashion - accessories
Luxury Retail No. 1 (Mulberry)	Restructuring	Receivership	Luxury fashion - accessories
Max Fashions	Restructuring	Special Situations	Fashion - women's fashion
Project Joe	Restructuring	Receivership, Creditor Advisory	Fuel retailing
Project Opal	Restructuring	Management & Board Advisory	Apparel - women's
Project Record	Restructuring	Creditor Advisory	Fashion - women's, homewares
Project Zeiss	Restructuring	Special Situations	Household goods
Top Ryde City	Restructuring	Receivership	Retail property
Project Gambier	Technology	Digital Forensics / Investigation	Supermarkets
Project Getaway	Technology	Cyber Governance & Risk	Specialty store with online presence
Project Pangai	Technology	Digital Forensics / Investigation	Supermarkets

