

B&M Value Retail: Attractive valuation that is aligned with strong UK consumer¹

Company:	B&M Value Retail (BME)	Market Cap:	£2.71bn (270p)
Industry:	Retail	Net debt:	£1bn
Country:	UK, France	Revenue:	£5.57bn
Entry Date:	24 th -25 th June 2025	Adj. Operating profit:	£566m
Dividend:	15p (5.5%)	Free cash flow:	£306m (excl. working cap.)
Entry:	£2.8bn (278p)	Target:	£4bn (+45%)

Why B&M European Value Retail?

- A 10% devaluation of the USD leads to £40m higher profits
- Poundland, Homebase and Wilko bankruptcies are benefiting B&M
- Jurisdiction change to Jersey enables share buyback
- The last time the company traded at a lower valuation in July was in 2016
- New CEO bought £0.5m shares in own account
- The recent warm & sunny weather generally bodes well for their garden and leisure general merchandise sales

Risks

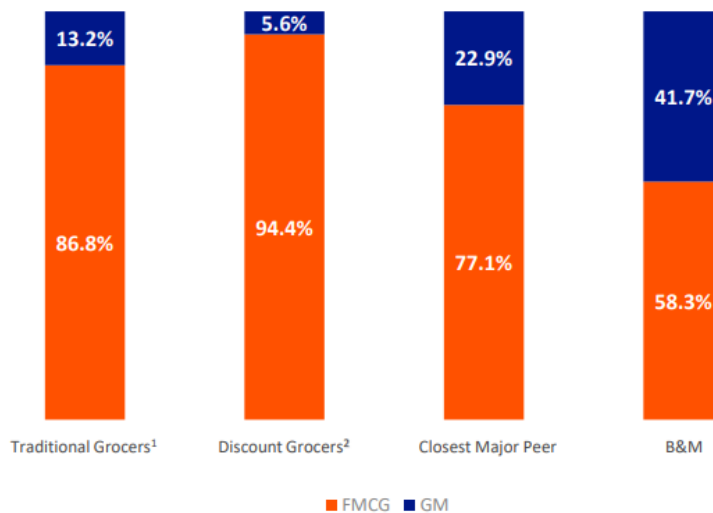
- Recent updates on competitors like Greggs and Sainsbury's were negatively perceived by the market
- EPR packaging taxes, NIC & minimum wage increases cause £75m cost increase in the UK in FY 2026
- Stable price strategy in FY 2025 has led to lower operating profit margins

¹ all assumptions and observations are based on internal modelling and data analysis

About B&M European Value Retail

B&M European Value Retail owns three sub-businesses: B&M UK (80% of revenue), B&M France (10% of revenue), and Heron Foods (10% of revenue). B&M UK operated 777 shops in the UK as of end of FY 2025, B&M France around 135 stores and Heron Foods around 343 stores in the UK. B&M had 41.7% of its sales in General Merchandise (GM) products in FY 2025, such as gardening products & furniture, and other leisure products incl. electricals, whilst 58.3% of its sales were from fast-moving consumer goods (FMCG), such as groceries and toiletries². In comparison, its closest competitor has a 22.9%/77.1% GM/FMCG ratio. Heron Foods, on the other hand, is a low-cost convenience store brand, located mostly around Midlands & Northern England. The company sources 30% of its products from China³ and targets over 1,200 B&M UK stores over the medium term (+54%) as well as 1,200 B&M France stores (+788%)⁴.

Estimated sales breakdown by category – Kantar Worldpanel Plus



Source: Kantar Worldpanel Plus, data to 20 April 2025.

1. Average of Tesco, Sainsbury, Asda and Morrisons.

2. Average of Aldi and Lidl.

Note: Data for B&M is shown as externally measured by Kantar Worldpanel Plus and is shown on a consistent for comparative purposes. Actual sales breakdown using internal data shows a balanced split between sales of the categories.

Source: <https://www.bandmretail.com/~media/Files/B/Bmstores-Corp/documents/investors/reports-and-presentations/2025/fy25-prelims-presentation.pdf> p. 16

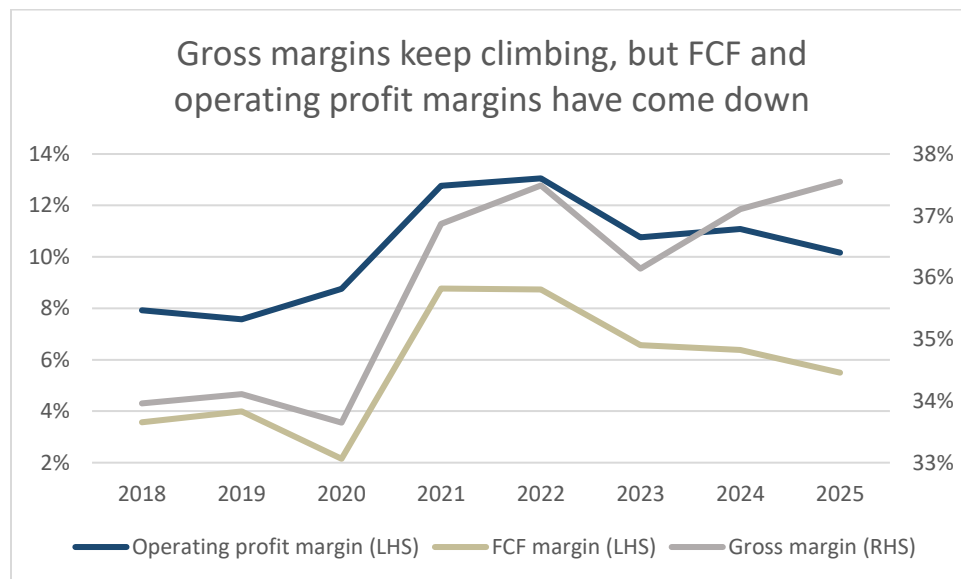
² <https://www.bandmretail.com/~media/Files/B/Bmstores-Corp/documents/investors/reports-and-presentations/2025/fy25-prelims-presentation.pdf>

³ <https://www.theretailbulletin.com/retailers/bm-news/>

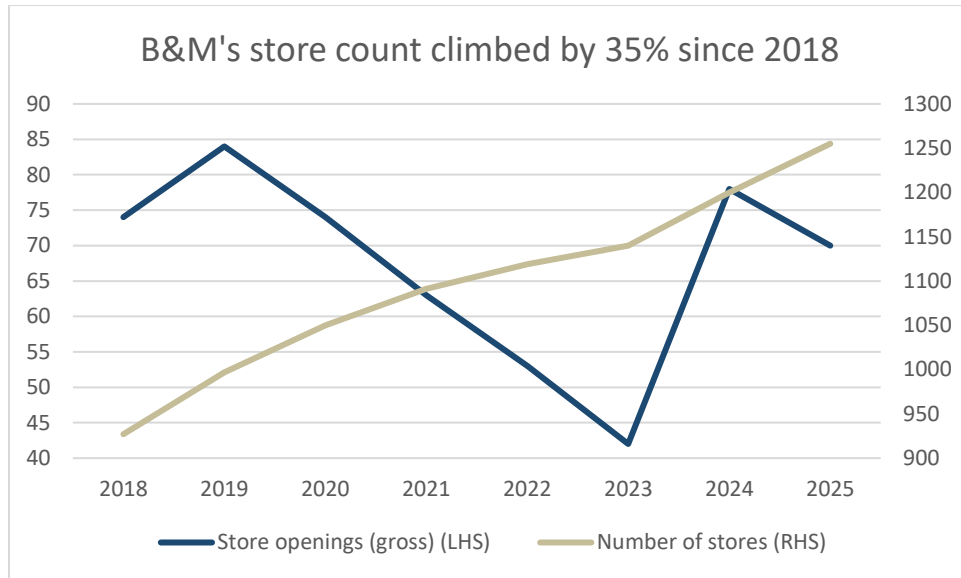
⁴ <https://www.bandmretail.com/investors/investment-case>

More stores, more profits

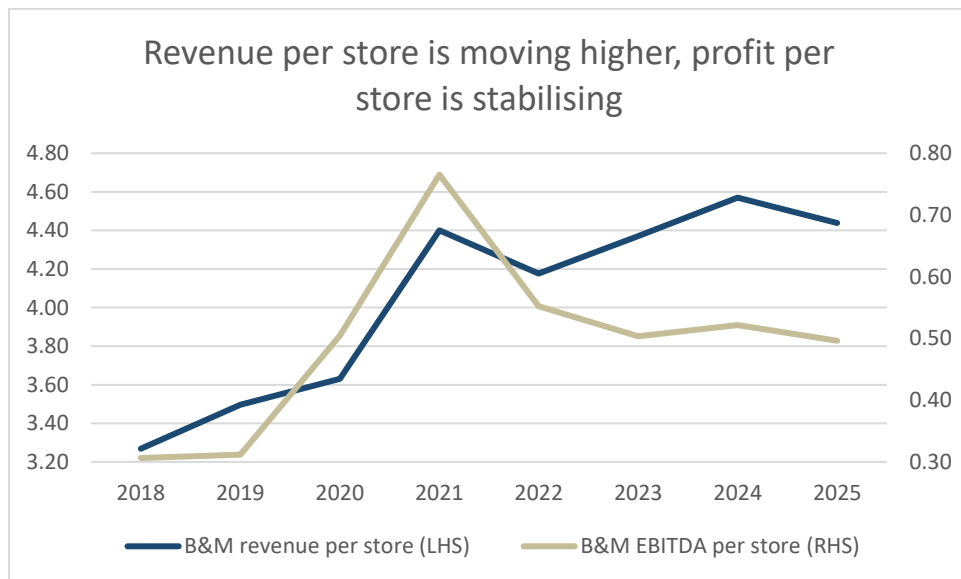
The total number of B&M and Heron Foods stores climbed by over 35% between 2018 and 2025, whilst revenue increased by over 70%. With the rising number of stores, revenue per store also grew by 35% from £3.27m to £4.44m, and EBITDA per store grew by 61% from £0.31m to £0.5m – although EBITDA per store peaked in 2021 at £0.77m per store and since 2023 stabilised. At the same time, gross margins climbed from 34% to over 37%. The higher gross margins are a direct result of deflationary pressures in China, where the company sources 30% of its products from. These products are bought with USD, and their current exposure leads to £40m higher profits if the USD were to devalue by 10% against the pound. And despite an increase of 88% in gross debt since 2018, debt/operating profit has reduced from 2.5x in 2018 to 2x in 2025. The company continues to target ~70 gross store openings per year, which likely results in around 50-55 net store openings – same as in 2025.



Source: B&M European Value Annual Reports



Source: B&M European Value Annual Reports



Source: B&M European Value Annual Reports

B&M gains in profits when the USD depreciates

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in US Dollar period-end exchange rates with all other variables held constant. The impact on the Group's profit before tax and other comprehensive income (net of tax) is largely due to changes in the fair value of our foreign exchange derivatives and revaluation of creditors and deposits held on account with our US Dollar suppliers.

As at	Change in USD rate	29 March 2025 £'m	30 March 2024 £'m
Effect on profit before tax	+2.5%	(10)	(7)
	-2.5%	10	8
Effect on other comprehensive income	+2.5%	(13)	(13)
	-2.5%	14	14

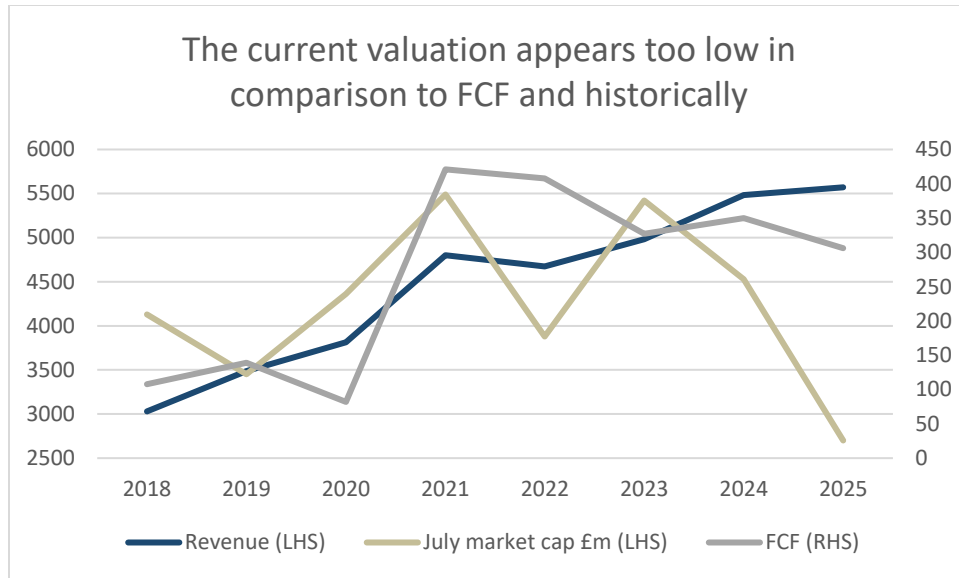
Source: B&M European Value Retail Annual Report 2025

An attractive historic valuation

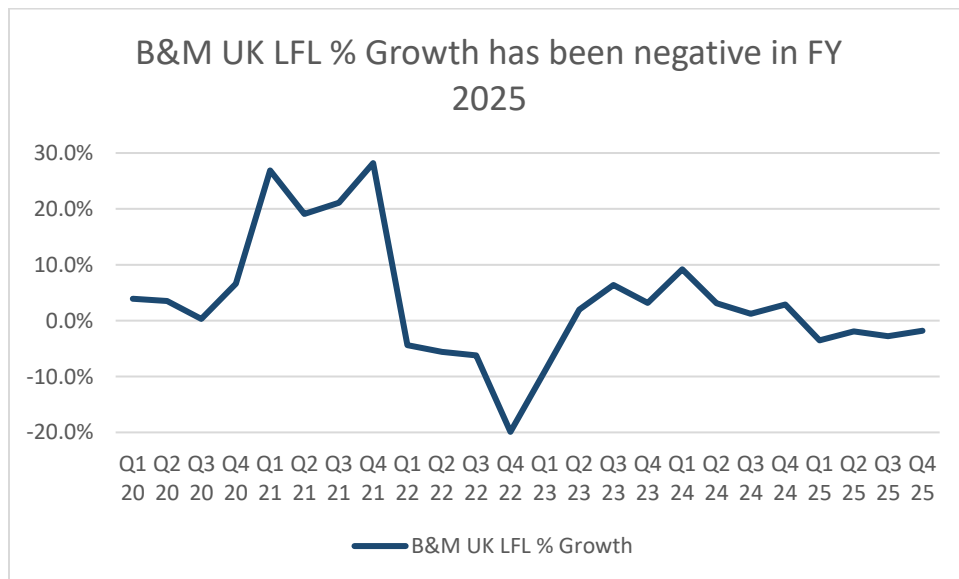
Despite the store growth and higher gross margins, administrative expenses have nearly doubled (+93% since 2018) and consumer behaviour has shifted after the exceptional lockdown purchases. This has led to free cash flow (excluding working capital adjustments) reducing by over 27% since the banner year 2021 (however, down only 6% since 2023). The EPR packaging taxes, higher National Insurance Contributions and increase in the Minimum Wage will lead to an additional £75m in costs in the UK in FY 2026, which the company is looking to offset to some degree through efficiencies⁵. However, despite the recent sunny and warm weather, which generally boosts their gardening and leisure general merchandise, the company's valuation (excluding debt) is at a near 10-year low as of July this year. At the same time, B&M moved its headquarters from Luxembourg to Jersey, enabling them to start a share repurchase programme⁶. Whilst the last four quarters have all had low, negative single digit % like-for-like sales growth in the UK, I expect growth to return in Q1 26 (June), which generally led shares to revalue in the past.

⁵ <https://www.bandmretail.com/~media/Files/B/Bmstores-Corp/documents/investors/reports-and-presentations/2025/fy25-prelims-rns.pdf>

⁶ <https://www.cityam.com/bm-swaps-one-tax-haven-for-another/>



Source: B&M European Value Annual Reports



Source: B&M European Value quarterly updates

Competitive landscape

I generally use trading updates of competitors or companies that have a high correlation in the stock market as guidance to time the pivot point of valuation turnarounds. In the case of B&M, Sainsbury's⁷ and Greggs⁸ had two negative market reactions (down -3% and -15%) after their trading updates in recent days, after I bought B&M shares. However, on a 1-year horizon, B&M's share price performance is similar to Greggs (-1% delta) and much worse than Greggs on a 5-year horizon (-40% delta). Other non-listed competitors have had mixed performances, with Wilko, Poundland and HomeBase all declaring de facto bankruptcy in recent years, and CDS/The Range and Home Bargains seemingly doing well⁹. Overall, this leaves me somewhat "neutral to positive" in terms of immediate pivot points to see B&M's valuation turn around with the trading update on 15th July.



⁷ <https://otp.tools.investis.com/clients/uk/sainsbury/rns/regulatory-story.aspx?cid=162&newsid=1960979>

⁸ <https://a.storyblok.com/f/162306/x/8fd7990ae1/greggs-first-half-2025-trading-update.pdf>

⁹ <https://www.retailgazette.co.uk/blog/2025/01/home-bargains-profits-surge/> ,
<https://www.retailgazette.co.uk/blog/2024/11/the-range-homebase/>

Legal Disclaimer

The contents of this document have been prepared solely for the purpose of providing information about David Herrmann trading as AozoraStep and the services and products he is offering, which are targeted for professional investors only. AozoraStep is a trading name of Vittoria & Partners LLP ("V&P"). V&P will be appointed to as the investment manager or adviser to any AozoraStep related products. V&P has seconded David Herrmann (IRN: DXH02219) to undertake regulated activities under the trading name. V&P is authorised and regulated by the Financial Conduct Authority (FRN: 709710). This document is intended for Professional Clients only. The opinions and views expressed are those of David Herrmann and may change without notice and should not be construed as investment, tax, legal or other advice. David Herrmann and V&P do not guarantee the completeness and accuracy of the information provided and all content can become out of date. Potential products or services mentioned in this presentation are subject to legal and regulatory requirements in applicable jurisdictions and may not be available in all jurisdictions. Accordingly, persons are required to inform themselves and observe any such restrictions. In respect to investments described in this document, past performance is not a guide to future performance. The value of investments and the income of any financial instruments mentioned in this document may fall as well as rise and may have tax consequences. The performance of the investment strategy that David is planning to offer is based on a personal track record and approved by Sedulo for the time period Q1 2019 - Q1 2021 and by HiCloud Accounting for the time period 2020 - 2024, only with further examinations being done on an occasional basis. All references to AozoraStep in this presentation should be read in the context of David Herrmann's secondment to V&P to undertake regulated activities.