AozoraStep

For professional clients

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Exit B&M Value Retail: More time needed to see a potential turnaround[1]

Company:	B&M Value Retail (BME)	**Market Cap:**	£2.31bn (230p)
Industry:	Retail	**Net debt:**	£1bn
Country:	UK, France	**Revenue:**	£5.57bn
Entry Date:	24th-25th June 2025	**Adj. Operating profit:**	£566m
Dividend:	15p (5.5%)	**Free cash flow:**	£306m (excl. working cap.)
Entry:	£2.8bn (278p)	**Exit:**	£2.3bn (-14% incl. 3.6% div.)

Why exit B&M European Value Retail?

- Despite growing like-for-like sales for the first time in over a year, analysts expected much higher like-for-like sales growth (JPM estimated 5%)
- Next update is only in November, i.e. after the Autumn Budget
- Jersey entity change will take longer than I estimated, hence no share buyback to come before November

A harsh market reaction, but worse might still come

When I read the trading update for Q1 25 from B&M European Value Retail (here), I expected that the share price would move higher due to higher like-for-like sales for the first time in over a year. However, the opposite happened, and shares ended the day over 13% down[2]. Whilst trying to understand the market reaction, I read JPM's analyst report stating a 2.5-3% like-for-like sales was consensus (higher than the +1.3%). JPM, DB, etc. then further downgraded the stock. Generally, when such a chain of reactions occurs after a trading update, there is a risk that the valuation just drops lower until it stabilizes. Due to the next update only in November (half-year results), the risk of a further devaluation of the equity

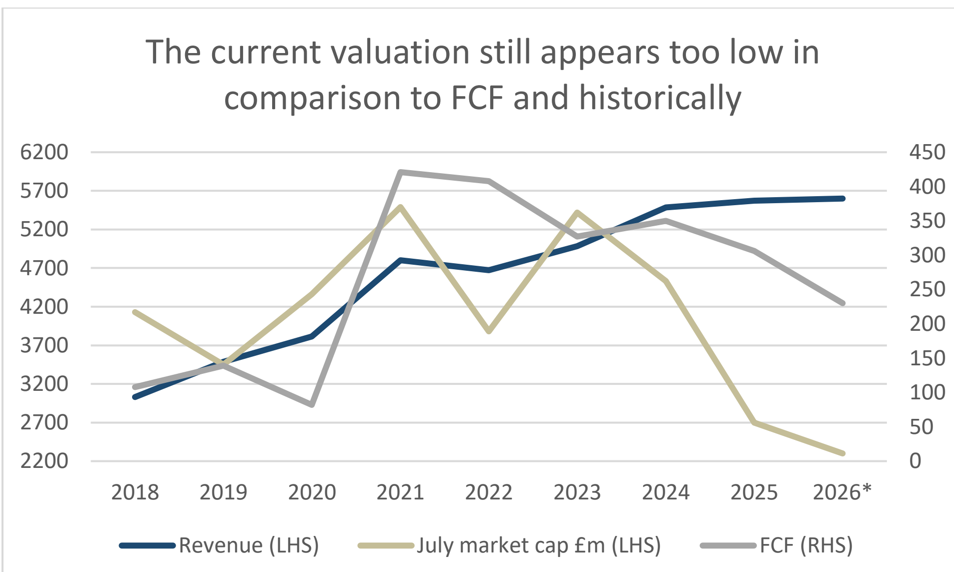
[1] all assumptions and observations are based on internal modelling and data analysis
[2] https://uk.finance.yahoo.com/news/b-m-share-price-falls-111111943.html

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com

appeared quite high. At the same time, the weaker USD (a 10% devaluation against GBP leads to £40m higher EBIT) has started to reverse throughout July and GBP suddenly began to weaken as another “black hole” in the public finances emerged[3]. This meant to me that: 1. The £75m additional costs B&M faces cannot be fixed by exchange rates, 2. Valuations in UK focused companies could move lower until certainty can be re-established from the Autumn Budget later this year & there could be more tax hikes on the horizon.

The valuation still appears too low

When I model free cash flows excluding working capital, B&M still appears attractively valued. However, another fiscal black hole, could turn 2025 into another 2022. UK long-end gilt yields have remained at around 5.5% (30yr) in recent weeks. With this historic analogy, one can use a simple chart of B&M’s equity valuation to see that the valuation continued dropping into Autumn until the fiscal event sorted itself out. Therefore, I’m using the 2022 analogy and decided it is far safer to stay on the sidelines for the time being.



Source: B&M European Value Retail annual reports, FCF excludes working capital, *2026 own estimates

[3] https://news.sky.com/story/fiscal-rules-are-silly-but-important-as-reeves-has-banged-on-about-them-and-markets-care-13392031

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www.aozorastep.com · david@aozorastep.com