Measuring profitability for the grocery retailers: matters arising from the conference

Foodstuffs

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1. Introduction and summary

1.1 Introduction

1. I provided a report in September[1] for Foodstuffs[2] that commented on the Commerce Commission's analysis of profitability in its draft report into the grocery retail sector.[3] The purpose of this report is to respond to certain matters arising since the release of that report, specifically:

   a. to provide further comment about the Commission's calculation of profitability for Foodstuffs at the level of stores, and on the assumption that stores lease their land and buildings assets

   b. to provide further comment about the benchmark that should be applied to assess the reasonableness of the grocery retailers' returns, and

   c. to comment on a study by Deloitte into, amongst other things, retail margins that was referred to during the conference.

1.2 Summary

2. My principal conclusions are as follows.

   a. The Commission should not publish returns calculated for Foodstuffs at the level of the stores on the assumption that those stores rent their land and building assets. It is almost certain that returns calculated in this manner – which are highly levered returns – will be misinterpreted (compounded by the fact that the Commission has never before highlighted leveraged returns), is artificial and will not improve the economic meaning of the calculated returns.

   b. To the extent the Commission's desire to assume that assets are rented arises from a concern about asset valuation, this is misplaced. The Commission has information on the market values of assets, and can test the sensitivity of returns against plausible assumptions about revaluation gains. The Commission also has the accounting book values of the assets, which set an upper end to the plausible range of returns.[4]

   c. The most appropriate benchmark against which the grocery retailers' (unlevered) returns should benchmarked are the actual returns achieved by the international sample of grocery retailers, in view of:

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1 Incenta Economics Consulting (2021), Review of grocery retailing: Comment on the Commerce Commission's analysis of profitability, report for Foodstuffs, September ("my earlier report").

2 I use the term "Foodstuffs" to refer to the collectives collectively, and Foodstuffs North Island or Foodstuffs South Island when the point relates to only one of the collectives.

3 Commerce Commission New Zealand (2021), Market study into the retail grocery sector, Draft report, July ("Commission's draft report").

4 I note here that the cooperatives buy land to operate supermarkets, rather than to "flip" for a profit. Accordingly, paper revaluation gains are not likely to be realised in practice (or realised with such a deferral that the present value is small).

i. the significance that intangible assets are likely to have in this sector, and

ii. the difficulties with identifying the correct WACC for this analysis.

d. References made during the conference to retailer margins reported in a publication by Deloitte as evidence of the profitability of the NZ grocery retailers. However, the margins in question relate to measures that should not be relied upon when benchmarking returns. More generally, the analysis presented in the Deloitte publication – which was undertaken for a different purpose – does not provide additional insights compared to the analysis of returns for the international sample of firms the Commission identified, provided this latter evidence is assembled and interpreted correctly.

2. Calculation of profitability

2.1 ROACE under the "renter" assumption is highly leveraged and cannot be compared to WACC or ROACE for international grocery retailers

3. The Commission confirmed during the conference that it intends to present returns for Foodstuffs with the retail stores separated from the remainder of the cooperative, and to calculate those returns on the assumption that the stores are renters of the land and buildings assets that are employed. In my earlier report, I used a simple example to illustrate that the implication of renting assets is that the returns will be (highly) leveraged, and so only able to be compared against benchmark returns that have been increased to be consistent with the same level of leverage. I concluded that a fundamental error in the Commission's assessment of profitability in the draft report was that the Commission compared this (highly) leveraged "renter" return against returns that were unlevered (or largely unlevered).

4. The following discussion re-presents the simple example from my earlier report, with slight modifications.[5]

5. Table 1 assumes that a firm employs the same assets to provide the service, charges the same prices and earns the same revenue, and incurs the same operating expenditure, with the only difference being how the land and buildings component of its assets is financed, with the choice between:[6]

   a. wholly equity finance

   b. wholly debt finance, or

   c. a long term lease.[7]

6. Focussing on row 30 (which shows the "return on capital employed" that is calculated given the revenue and cost assumed and the chosen financing method) and the first three columns:

   a. both the equity-financed and debt-financed options (columns A and B) deliver a return on capital employed of 4.68 per cent, which is as intended – the purpose of focussing on the return on capital employed is to ignore how an asset has been financed (i.e., this is achieved because the return on capital employed should be indifferent to the choice of financing method), however

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5 The main modification is the insertion of an equity-finance option (Column A). In addition, there was a slight error in the calculation of "return on capital employed" in my earlier report (namely, when I added net interest back onto NPAT, I did not make a tax adjustment), which is corrected here. The error did not affect the implications drawn in my earlier report.

6 Of course, any combination of debt and equity between these book-ends is possible, subject to the willingness of lenders.

7 This example assumes for simplicity that the lease has a very long term and that the rent is either fixed or subject to a mechanistic escalation.

b. the "renter" example produces a "return on capital employed" figure that is substantially higher – indeed, more then 3-fold the "return on capital employed" that is seen in the equity or debt-financed examples.

Table 1 – Return on capital employed vs. financing method

	[A] Owner - equity financed land and buildings	[B] Owner - debt financed land and buildings	[C] Renter (pre-IFRS 16 financial accounting)	[D] Renter (economic effect / IFRS 16)
[1] **Profit and loss**				
[2] Sales	1,000	1,000	1,000	1,000
[3] Cost of goods sold	850	850	850	850
[4] **Gross Profit**	**150**	**150**	**150**	**150**
[5] Opex (excl rent/depn)	50	50	50	50
[6] Rent			50	
[7] **EBITDA**	**100**	**100**	**50**	**100**
[8] Depreciation	22	22	2	22
[9] **EBIT**	**78**	**78**	**48**	**78**
[10] Interest		30		30
[11] Tax	22	13	13	13
[12] **NPAT**	**56**	**35**	**35**	**35**
[13] **Balance sheet**				
[14] **Assets**				
[15] Inventory and Fittings	200	200	200	200
[16] ROU Asset				1,000
[17] Land & Buildings	1,000	1,000		
[18] **Total Assets**	**1,200**	**1,200**	**200**	**1,200**
[19] **Liabilities**				
[20] Debt		1,000		
[21] ROU liability				1,000
[22] **Total Debt**	**-**	**1,000**	**-**	**1,000**
[23] **Total Net Assets**	**1,200**	**200**	**200**	**200**
[24] **Key financial indicators**				
[25] **Gross profit margin (%)**	15.00%	15.00%	15.00%	15.00%
[26] **EBITDAR margin (%)**	10.00%	10.00%	10.00%	10.00%
[27] **EBITDA margin (%)**	**10.00%**	**10.00%**	**5.00%**	**10.00%**
[28] **EBIT margin (%)**	**7.80%**	**7.80%**	**4.80%**	**7.80%**
[29] **NPAT margin (%)**	5.62%	3.46%	3.46%	3.46%
[30] **Return on capital employed (%)**	**4.68%**	**4.68%**	**17.28%**	**4.68%**
[31] **Return on net assets (equity) (%)**	4.68%	17.28%	17.28%	17.28%

7. At first sight, this example may appear to suggest that "renting" is a more desirable method of financing than traditional finance as much higher returns can be earned. However, this cannot be correct – if this was the case, then everyone would choose to rent assets rather than to finance them with standard debt or equity, whereas we observe a mix of traditional finance and renting in the grocery retailing sector.[8] Rather, the correct interpretation is that:

a. The measured "return on capital employed" in the case of traditional debt and equity finance is an unlevered return, whereas

b. In the case of the renter, what is measured as a "return on capital employed" is in fact a (highly) levered return – the higher apparent return in this case (17.28 per cent vs.

[8] More generally, outside of the grocery sector and certain other sectors (such as airlines), leasing of substantial assets is not a dominant – or even particularly common – form of finance.

4.68 per cent) merely reflects the additional return that is required to compensate for the increase in risk that is created by leverage.[9]

c. More specifically, if the cost of capital for the unlevered asset is 4.68 per cent (i.e., assuming that the return on capital employed in columns A and B is equal to the cost of capital) then the cost of capital is 17.28 per cent in the case of the renter – that is, a 12.60 percentage point increase in the return is required to compensate for the additional risk that is caused by the leverage implicit in renting assets.

8. There are two options in the presence of substantial leasing of assets that could, in principle, be applied to ensure consistency between the return on capital employed that is calculated and the benchmark against which it is to be compared, in view of the implicit leverage effect of leasing (i.e., to ensure an "apples and apples" comparison).

a. First, an unlevered return (i.e., a true "return on capital employed") can be calculated by including the leased assets in the calculation (i.e., including the value of the leased assets in the denominator and the depreciation in the numerator). This is the outcome shown in Column D in the simple example.

i. As discussed during the conference, even where firms actually lease assets, the new lease accounting standard (IFRS 16) requires firms to include a value associated with leased assets (as well as the associated lease liability), which can be used as an approximation for the value of the asset.[10]

ii. However, in the case of Foodstuffs, there is no need for such an approximation. As the cooperative owns the vast majority of the land and building assets it employs, the information on the underlying values of the assets (as well as the associated depreciation) is readily available.

b. Secondly, in principle at least, a lease-affected (i.e., leveraged) return on capital employed could be calculated and compared to a benchmark that is levered to the same extent. The adjustment required to derive this benchmark is substantial.

i. I showed in my earlier report that the average unlevered return on capital employed for the international sample of grocery retailers was between approximately 9 per cent and 11 per cent.[11]

ii. However, I also showed that this range would adjust to approximately 22 per cent to 25 per cent to be consistent with the leverage that would be implied if

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9 The proposition that leverage increases the cost of capital for a particular security is well accepted in financial economics and indeed is reflected in the Commerce Commission's standard WACC calculations. Note that I use the term "cost of capital" in this note to refer generically to the required return (or fair return or commercial return or competitive return) for a cash flow, which may be an unlevered cash flow (in which case the cost of capital is an unlevered cost of capital) or a levered cash flow, like a cash flow to equity (in which case the cost of capital is a levered [higher] cost of capital).

10 I discussed the areas of imprecision with IFRS 16 asset values / liabilities in my earlier report (para.28 and associated footnotes).

11 Incenta, earlier report, para 117.

the Foodstuffs' stores were assumed to be renters of their land and buildings assets (albeit with a material error range around this).[12]

9. Of these two options, in my view there are compelling reasons to favour the first (i.e., focussing on a truly unlevered return), which I discuss further in section 2.3.

10. First, however, I observe that the simple example above also has implications for the appropriateness of the various "margins" against which the profitability of Foodstuffs could be benchmarked.

    a. Row 25 shows that the "gross profit margin" is unaffected by a firm's choice of form of financing / renting, and so is suitable to be benchmarked across companies (subject to any inherent interpretation issues with the measure).[13]

    b. Row 26 shows that a firm's "earnings before interest, tax, depreciation, amortisation and rent" (EBITDAR) margin is also unaffected by a firm's choice of form of financing / renting, and so is suitable to be benchmarked across companies (subject to any inherent interpretation issues with the measure).

    c. Row 27 shows that a firm's "earnings before interest, tax, depreciation and amortisation" (EBITDA) margin will be affected by the extent of that firm's leasing of assets, and so cannot be benchmarked across firms unless an adjustment is made.

    d. Row 28 shows that a firm's "earnings before interest and tax" (EBIT) margin will be affected by the extent of that firm's leasing of assets, and so cannot be benchmarked across firms unless an adjustment is made.

    e. Row 29 shows that a firm's "net profit after tax" (NPAT) margin will be affected by the extent of equity vs. debt / lease finance employed by the firm, and so also cannot be benchmarked across firms unless an adjustment is made.

11. In summary, only the gross profit margin and EBITDAR margin can be benchmarked across firms without having to make an adjustment for the degree of renting or leverage.

2.2 A lease is a bundle of transactions

12. During the conference, Dr Small applied two thought experiments to justify excluding leased assets when calculating ROACE.[14]

    a. Dr Small observed that, where a firm rents its assets, its only upfront expenditure may be for transaction related costs, in which case it would not have any capital employed in the activity.

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12 Incenta, earlier report, para 117.

13 Note, however, that in my earlier report I identified anomalies with how the UK stores classified their operating expenditure, which affected their measured gross profit margin – see my earlier report, section 3.3.1.

14 Conference, day 4, pp.28, 29, 31.

b. Dr Small also observed that a firm that takes over a long-term lease may do so without making any additional payment, also implying that it would not have any capital employed.

13. However, in my view, these thought experiments fail to acknowledge that a long-term lease is, in reality, a bundle of transactions, namely:

a. the right to use an asset, which is self-evidently a valuable right, and

b. a financing arrangement for that right.

14. Thus, it cannot be concluded that nothing has been paid for the right to use the asset because the acquisition of that right is not separately observable (although, as discussed above, this is precisely the unbundling that IFRS 16 requires).

15. Indeed, an equivalent thought experiment would be where:

a. a new asset is acquired/constructed, but wholly financed via debt, or

b. an existing asset is purchased, but its acquisition is wholly financed via debt.

16. In both cases, as with the renter thought experiment, the asset owner would not be contributing any capital itself; however, in the case of traditional debt finance, the Commission has not suggested that the value of the asset acquired would be excluded from capital employed.

17. The correct response is that:

a. for the measured ROACE to be an unlevered return, the value of all assets needs to be included in capital employed (and depreciation in return), and financing flows ignored, or

b. otherwise, it needs to be acknowledged that the ROACE that is calculated will be a levered return, and can only be compared to a benchmark return that is consistent with the same level of leverage.

2.3 The renter assumption should not be applied

18. I noted above that a choice exists, in principle at least, when calculating the return on capital employed as to whether:

a. stores are assumed to lease the land and building assets, or

b. to include the underlying value of those assets in the calculation (i.e., as part of the denominator, and with depreciation included in the numerator).

19. In my view, there are compelling reasons for preferring the latter (i.e., including the value of the underlying assets in the calculation). I say this for four reasons.

a. First, it is almost certain that if the Commission produces returns based on a renter assumption that they will be misinterpreted. As shown above, the return on capital employed under the "renter" assumption is, in fact, will be a highly leveraged return in the context of the Foodstuffs stores, and any benchmark return applied would need to be adjusted upward to be consistent with this level of leverage. However, outside of those who are experts in finance theory, the proposition that a high assumed level of leverage may mean that a return of 25 per cent or more may be a competitive market return is very likely to be misunderstood.

   i. Importantly, the Commerce Commission has never highlighted leveraged returns in any of its previous work (whether in competition matters or utility regulation). Accordingly, there is no prior practice of the Commission's that would alert non-technical readers to the relevance of leverage when considering returns.

   ii. Moreover, leveraged returns can only be compared where an identical level of leverage is exists or is assumed. Thus, the returns the Commission calculates for Foodstuffs could not even be compared to the returns calculated for Woolworths NZ.

b. Secondly, the Commission's calculation of returns at the store level assumes a separation of the stores from the remainder of the cooperatives; however, this is entirely artificial. As my previous report noted, and Foodstuffs' submissions have canvassed in detail, the cooperatives are highly integrated, and so:[15]

   i. the stores could not exist independent of the cooperative centres, and

   ii. the transactions between the stores and the centres cannot be assumed to be (and quite clearly are not) good indicators of the competitive market price for the services the centre provides because the store owners also own the cooperatives.

c. Thirdly, in the case of Foodstuffs, the rents the Commission would need to assume for the stores are artificial. As I explained in my previous report, and Foodstuffs' submissions canvas in detail, the cooperatives own the vast majority of the land and building assets employed. Whilst a rent is paid by the stores, as noted above, the store owners also own the cooperatives and hence the underlying land and building assets. Accordingly, those rents cannot be relied upon as reflecting market prices.[16] In contrast, the cooperatives own the vast majority of the land and buildings employed, and so asset values can be observed (I return to the question of asset valuation in section 2.4).

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15 Separating Foodstuffs in this manner is also inconsistent with how the returns are to be calculated for Woolworths (for which the Commission envisages only publishing whole-of-business returns). From an economic perspective, there is little difference between the Foodstuffs cooperatives and Woolworths in that both are highly integrated operations, with Foodstuffs ownership model really only serving to strengthen the incentives for optimisation of service delivery within a particular store.

16 I note that the Commission has adjusted the Foodstuffs rents to better reflect market rents; however, the adjustments made reflect an assumption of the Commission's rather than an observed fact.

d. Fourthly, the approach to benchmarking returns that is most meaningful from an economic perspective is one that includes all of the assets employed to provide the service, as I explained in my previous report.

2.4 Valuation of assets is not an insurmountable problem

20. My understanding is that the Commission's principal rationale for applying the "renter" assumption is to side-step the need to arrive at a value of the land and buildings assets, and to make a forecast of revaluation gains.

21. In my view, however, this concern is overstated.

    a. The Commission has information on the market values of the cooperatives' land and building assets. Whilst there is some imprecision to such valuations,[17] scenarios can be tested.

    b. In addition, I have set out my view about the revaluation gain that it is appropriate for the Commission to assume (including that the objective needs to be upon the gain that a new entrant would expect at a point in time, not the historical actual), and I stand by this analysis. I also reiterate that recent revaluation gains are unlikely to provide insight into the conditions for entry where those gains were materially different to what any party could have expected. Nevertheless, the Commission can also test scenarios around central assumptions.

22. Moreover, the Commission also has information on the accounting book value of assets, and applying these book values (with no revaluation gain) provides an upper bound to the returns that could be derived.[18] Importantly, the cooperatives purchase land (and construct buildings) for the purpose of running a supermarket for an extended period, and so increases in the market value of the underlying assets are unlikely to be realised (or only realised with such a deferral as to be immaterial in present value terms).

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17 Noting, as commented above, that there is also imprecision as to the market rents in the case of Foodstuffs, because the rents charged to stores are non-arms length.

18 I remain of the view that market value (paired with expected revaluation gains) is the most appropriate basis for valuation given the Commission's objective of inquiring whether entry into the sector should have been encouraged. Focussing on book values implies a focus instead on the returns that have been earned by incumbents (which may overstate the return that a new entrant could make if asset prices have increased materially).

3. The benchmark against which returns are assessed

23. There was little discussion during the conference as to the appropriate benchmark against which the returns of the Foodstuffs cooperatives should be tested (i.e., after adjusting to be consistent with the leverage assumed, explicit or implicit).

24. I remain of the view I expressed in my earlier report that the soundest point of comparison is the return observed for the international sample of grocery retailers. My reasons for this were set out in my earlier report, and which I summarise below.

25. First, I reiterate the message of section 2.1 that it is essential to ensure an "apples and applies" comparison with respect to the treatment of financial leverage, including the implicit leverage caused by leasing. The benchmarks discussed below – the WACC[19] and the average returns for firms on the NZX50[20] – are unlevered (or largely unlevered) returns, and so can only be applied to benchmark returns for the grocery retailers that are also truly unlevered (i.e., where all assets employed are included in the measure of "capital employed").

26. In relation to the WACC, an implicit assumption is that the measure of "capital employed" includes all assets. However, I observed that the Commission's measure includes only those assets that are treated as capital for accounting purposes, and that there is an emerging body of thought in the financial economics literature that these booked assets miss an important component of the assets of modern firms. More specifically, balance sheets will exclude the intangible assets that firms create and add to

[19] A corollary of recognising leases as giving rise to a liability is that an adjustment would also be required when estimating the WACC for the activity. In particular, as the leverage of the sample of comparable entities increases when leases are included, the estimated asset beta will be lower, but the benchmark leverage that results from the Commission's standard method (i.e., setting the gearing level at the average of the sample of comparables in order to reduce exposure to the "leverage anomaly") will be higher. I tested the effect on the estimated WACC of including lease liabilities within leverage, and found that the Commission's WACC estimate reduced by approximately 0.30 percentage points. This is not material in the context of an assessment of profitability, and in any event is well within the bounds of the intrinsic uncertainties of cost of capital estimation.

[20] I have calculated the level of ownership relative to leasing of assets for the firms on the NZX50 (excluding financial firms) for 2020, following the method I described in my previous report (previous report, paras.104-106). I calculate the simple average across the firms to be approximately 90 per cent, and the weighted average ownership levels to be 93 per cent (weighted by capital employed) or 92 per cent (weighted by enterprise value). For the four sectors that I referred to separately in para.76 of my previous report, the simple average ownership levels were 68% (consumer discretionary), 92 per cent (consumer staples), 78 per cent (industrial services) and 99 per cent (real estate).

over time – and that a new entrant would need to replicate – span all aspects of organisation capability,[21] including such things as:[22]

a. brand recognition and trust

b. assembly, training and retention of key staff, and

c. creation and extension of logistics networks.

27. Benchmarking against the returns of other grocery retailers is less likely to omit consideration of intangible assets because of the presence of such assets. This is because the presence of a return on omitted intangible assets should manifest as a higher return on the assets the Commission recognises in capital employed, and it is reasonable to expect that this margin will be similar across firms, and similar to what is appropriate for the NZ grocery retailers.

28. Secondly, a comparison to the WACC also raises issues with establishing the appropriate benchmark, including what is the relative risk of a grocery retailer, and the question of which should be impounded into today's market prices (noting the substantial falls we experienced in government bond rates in the last decade or so).[23]

29. The other benchmark to which the Commission referred in its draft report was the average return for the firms in the NZX50 index. In relation to this measure, I commented in my earlier report that the Commission's simple comparison against these returns to these firms was flawed, for two reasons.

a. First, this benchmarking was very sensitive to how the returns from different sectors were combined (i.e., whether a simple or weighted average should be applied).

b. Secondly, close to half of the firms on the NZX50 (by market value) comprised Fonterra (which is regulated) and infrastructure firms (many of which are regulated), which are not appropriate points of comparison for a grocery retailer. The sectors whose operations are closest to that of a grocery retailer experienced returns that were close to (and in many cases higher than) the Foodstuffs cooperatives when the latter is

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21 The Commission asked during the conference how intangible assets may be valued. I replied that I did not think there was yet a well-established method for doing this, and instead said that an implicit allowance should be made for these assets via comparing the returns of the NZ grocery retailers against that of their international peers, rather than against the WACC (this latter comparison only being valid if an allowance for intangible assets has been made). Nevertheless, in the financial economics literature, two broad methods have been applied to estimate these assets, being (i) to observe transaction premia over book value for firms that operate in competitive markets, and (ii) to, in effect, restate financial accounts by re-classifying a portion of past operating expenditure as intangible capital expenditure. This latter method typically means that, after a period, whilst the value that is recorded as operating expenditure reduces, this is offset by depreciation of the intangible asset, but that a new asset – the intangible asset – is present in the financial accounts.

22 I summarised some of the financial economics literature on this topic in by earlier report, including that researchers have estimated that intangible assets comprise more than 40 per cent of the total economic assets employed by US firms, on average (see my earlier report, paras.60-66, 69, with the estimate of the significance of intangible assets attributable to: Peters, Ryan H., and Lucian A. Taylor, (2017), "Intangible capital and the investment-q relation", *Journal of Financial Economics*, Vol. 123, p.258).

23 Refer to my earlier report, para.70.

calculated on an unlevered, whole of business basis. These sectors – and the simple average of ROACEs achieved over 2015-19 are:

i. Consumer Discretionary Products (13.6 per cent)

ii. Consumer Staple Products (12.4 per cent, once Fonterra and A2 Milk are excluded)[24]

iii. Industrial Services (transport) (11.5 per cent), and

iv. Real Estate (9.3 per cent).

[24] We view Fonterra as more akin to an infrastructure firm given the regulated nature of its operations. A2 Milk made an average ROACE over this period of 43.7 per cent.

4. Comment on the relevance of the Deloitte retail study

30. During the conference, references were made to a report on retailing activities by Deloitte[25] as evidence that excessive returns were being achieved by the NZ grocery retailers.[26]

31. I observe that the references during the conference were to two different margins:[27]

    a. The first reference was to the EBIT margin, and to a range of 3 per cent to 3.5 per cent.

    b. The second reference was to a net margin (which I assume to refer to net income margin, equivalent to what I referred to earlier as an NPAT margin), and a benchmark value of 2 per cent.

32. First and foremost, as I demonstrated via my simple example in section 2.1 above, neither of these benchmarks can be applied across firms without adjustment.

    a. In relation to the EBIT margin value, the margin reported was in FY2019, when a number of the firms may not have adopted IFRS16. Accordingly, the margin reported will be sensitive to the level of renting the stores in question undertake, and so an adjustment would be required to create a consistent comparison with Foodstuffs.

        i. Moreover, it is not clear that the margin referred to is an EBIT margin. Deloitte refers to the margin as a "return on assets",[28] which I would interpret as an after-tax margin (which would be lower than the EBIT margin for all firms that pay tax). Unfortunately, the Deloitte report does not provide the formulae underpinning its margin values, and so this cannot be confirmed.

    b. In relation to the net income (NPAT) margin, this measure is sensitive to the level of financial leverage of a firm (this margin will be lower as gearing is higher), and so an adjustment is required to apply to any firm.

33. I concluded in my earlier report that neither of these measures of profitability should be relied upon,[29] and remain of that view.

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25 Deloitte, Global powers of retailing, 2021 (downloaded at: https://www2.deloitte.com/content/dam/Deloitte/at/Documents/consumer-business/at-global-powers-retailing-2021.pdf).

26 Transcript, day 1, p.46; day 4, p.41.

27 These benchmarks appear to relate to the "return on assets" and "net profit margin" figures reported for the "fast moving consumer goods" sector on page 33 of the Deloitte report.

28 The value presented does not appear to be a literal return on assets measure (i.e., with an asset value in the denominator). The Deloitte report provides "return on assets" values for two firms in the Commission's sample (Tesco and The Kroger) of 1.90 per cent and 3.30 per cent, respectively, which compare to the returns on capital employed that the Commission calculated for the same year of 6.85 per cent and 15.16 per cent, respectively.

29 Earlier report, paras.82-86.

34. More generally, there is nothing in the Deloitte report that provides additional insight into returns compared to the analysis that has been the subject of consultation.