

# Retail Sector Update





# Selected recent credentials

Deloitte is the world's leading fully-integrated professional services organization, providing financial advisory, consulting, tax, audit and risk advisory services to the consumer business industry.

Deloitte Turkey has assumed various advisory roles in recent M&A transactions in the retail sector in Turkey. Using an integrated approach, Deloitte Turkey advised clients through delivering M&A Advisory, Financial Due Diligence, Commercial Due Diligence, Tax Due Diligence, Tax Advisory and Post-Merger Integration services. Selected recent deal experience is listed below:

<p><b>Deloitte.</b></p> <p>Lead financial advisor to Landmark</p>  <p>In its acquisition of Park Bravo</p> 	<p><b>Deloitte.</b></p> <p>Strategic and commercial due diligence of ORKA Group</p>  <p>for Investcorp</p> 	<p><b>Deloitte.</b></p> <p>Financial due diligence services to The Carlyle Group</p>  <p>In its acquisition of Pentti</p> 	<p><b>Deloitte.</b></p> <p>Financial due diligence services to Landmark</p>  <p>In its acquisition of Park Bravo</p> 
<p><b>Deloitte.</b></p> <p>Working capital due diligence of Pentti</p>  <p>For The Carlyle Group</p> 	<p><b>Deloitte.</b></p> <p>Commercial assessment of Park Bravo Group for Landmark</p> 	<p><b>Deloitte.</b></p> <p>Vendor due diligence services to Zilyan Group</p> 	<p><b>Deloitte.</b></p> <p>Vendor due diligence services to YKM</p> 
<p><b>Deloitte.</b></p> <p>Sale advisory to a footwear retailer</p> 	<p><b>Deloitte.</b></p> <p>Lead financial advisor to Silk &amp; Cashmere</p>  <p>In its sale to Eastgate Capital Group</p> 	<p><b>Deloitte.</b></p> <p>Financial &amp; tax due diligence services to Naspers</p>  <p>Regarding the acquisition of a private shopping website</p> 	<p><b>Deloitte.</b></p> <p>Acquisition advisory to a global footwear company in its acquisition of its Turkish distributor</p> 

# Industry trends

## Macroeconomic Performance

After a remarkable performance in 2011, Turkey experienced mild GDP growth of 2.2% in 2012, which raised total output to US\$791 billion, the 17th largest economy in the world. Despite the moderate growth, the capital markets thoroughly benefited from improving macroeconomic fundamentals: The BIST 100 index rose by 45% year-over-year May 2013 whereas the compound yield on the benchmark bond with a maturity of January 2015 decreased by nearly 400 basis points.

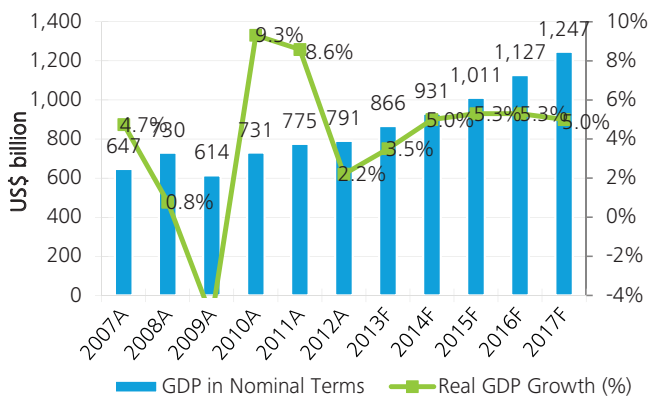
Turkey's improving fundamentals were also recognized by credit rating agencies: Fitch Ratings and Moody's upgraded Turkey's foreign currency rating to investment grade on November 5, 2012 and May 16, 2013, respectively. The third investment grade is expected from S&P within a year.

## Industry Commentary

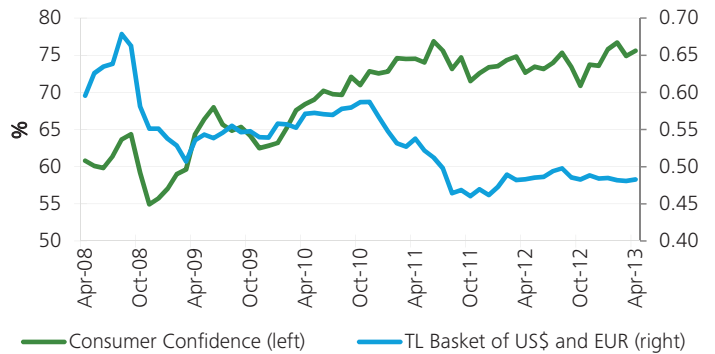
The retail sector in Turkey is maintaining momentum thanks to increasing per capita disposable income, coupled with an ever-growing consumer appetite. The per capita disposable income of US\$7,745 in 2012 is expected to exceed US\$11,300 by 2017. Despite a weakening of the TL compared to major currencies in the last couple of years, robust consumer confidence promotes the overall activity in the sector.

Still underpenetrated compared to developed countries, organized retailing in Turkey is developing at a fast pace thanks to nationwide shopping mall investments and the aggressive expansion strategies followed by retail groups. It is estimated that the share of organized retailers in the total retail market, which was around 30% ten years ago, exceeded 40% in 2012.

## Macroeconomic Performance



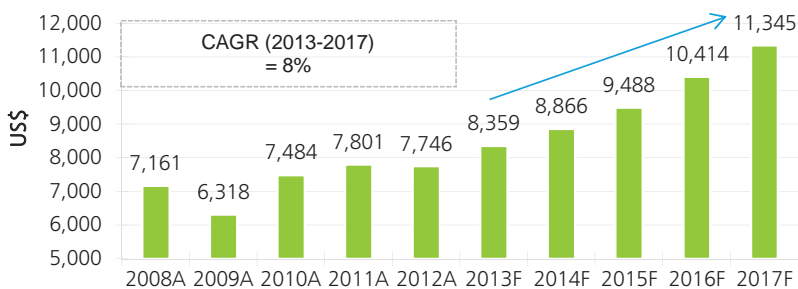
## Consumer Confidence vs. TL Weakness



**Note:** Index values prior to Jan.13 are adjusted to Turkstat's new calculation method which was introduced in Jan.13.

**Source:** Turkstat, CBRT

## Personal Disposable Income Per Capita



A: Actual, F:Forecast  
Source: Turkstat, EU

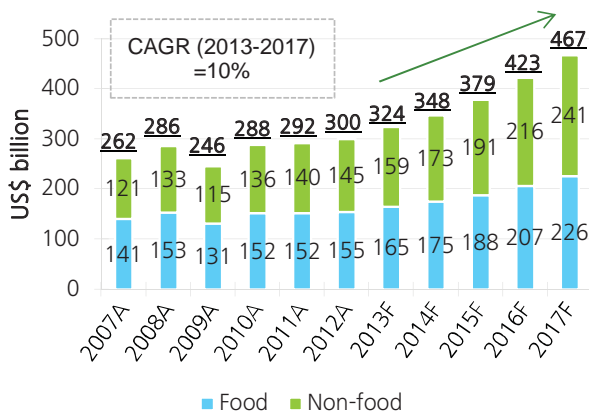
The total size of the retail sector (organized and unorganized) in Turkey is estimated to have reached US\$300 billion in 2012 and is expected to grow with a CAGR of 10% between 2013 and 2017.

The retail sector in Turkey greatly benefits from the increasing adoption of credit cards. In recent years, special offers (including extended installment periods, discounts and bonuses) provided in collaboration with banks have proved to be influential incentives for shopping.

According to The Interbank Card Center, the total value of credit / debit card transactions in supermarkets and shopping centers grew with a CAGR of 12% in the last six years and reached US\$28 billion in 2012.

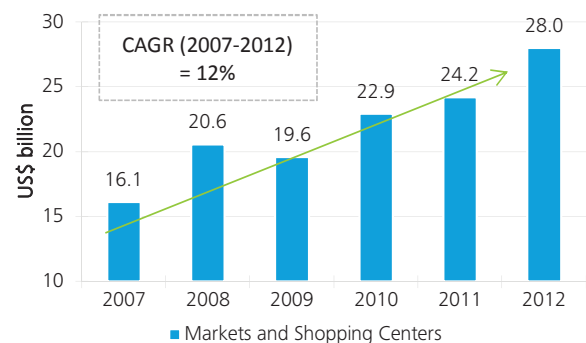
As of 2012, the number of shopping malls in Turkey reached 318 (from 301 in 2011) and total leasable area exceeded 8.2 million sqm.

### Retail Sales in Turkey



Source: EIU

### Credit / Debit Card Transactions



Source: The Interbank Card Center

### Category Commentary

#### Food and Beverage

Food and beverage, which account for nearly half of the total retail market, are expected to grow with a CAGR of 8% in the next five years and reach US\$226 billion in 2017. Spearheaded by the aggressive expansion of discount retailers, organized retail in this segment is experiencing significant growth.

#### Home Retail

The home retailing market in Turkey is expected to grow with a CAGR of 8.5% in the next five years and reach US\$72 billion in 2017 from US\$48 billion in 2012. In addition to strong housing demand backed by the large population of marriageable age, the renewal of existing buildings, rapid urbanization and a government-backed nationwide urban transformation project are expected to create a demand for 7.6 million additional apartments between 2012-2023.

(\*) Includes online payment of tax charges but excludes payment on delivery.

#### Apparel and Footwear Retailing

Being the most attractive segment to investors, apparel and footwear retailing is estimated to have reached US\$26 billion market size in 2012. The segment is expected to grow with a CAGR of 10% in the next five years.

#### Technical Goods

The technical goods market, which comprises consumer electronics, cameras, major & small domestic appliances, IT equipment, telecommunication devices and office equipment and & consumables, reached US\$14.2 billion in 2012, indicating 12% year-over-year growth.

#### Internet Retail

The total value of e-commerce transactions(\*) through virtual point of sales networks reached US\$17 billion in 2012, indicating 35% year-over-year growth.

# Industry focus: Food retailing in Turkey

## Food Retailing in Turkey

The food retailing market in Turkey is composed of multi-format retailers, regional supermarkets, discount retailers and convenience stores. As a consequence of the high degree of disorganization, the market is very fragmented and the total market share of the four largest players does not exceed one fifth of the total revenues<sup>1</sup>.

As finding available land and strategic locations is an issue, small-scale (mostly undisclosed) acquisitions and asset purchases are very common among local players. The disposal of underperforming stores at the expense of market share (vice-versa also applies) stimulates activity in the market.

Developing corporate governance among food retailers would be a catalyst for foreign investor interest as well. Currently there are eight food retailers traded on Borsa Istanbul, of which six went public after 2005.

## Segment Commentary

### Multi-format Retailing

The largest players in the multi-format segment are Migros (919 stores, 6 formats), CarrefourSA (243 stores, 3 formats) and Tesco Kipa (187 stores, 5 formats). As of 2012, Migros stands as the largest multi-format retailer in Turkey with a revenue of TL c.6.5 billion.

### Regional Supermarkets

Operating in only a limited number of cities, the majority of regional supermarkets in Turkey do not have more than 100 stores. Small-scale mergers and asset purchases are among the most common expansion strategies in this segment.

### Discount Retailing

The discount retailing market in Turkey is composed of hard and soft discount retailers which are distinguished from each other with respect to the number of SKUs<sup>2</sup> they carry, the share of private label products in their total revenues and whether they have shelf layouts or not. As a hard discount retailer, BİM generated 66% of its revenue through private label products whereas its nearest competitor A101 remains at 35%.

The five largest discount retailers in Turkey are BİM (3,751 stores), A101 (2,000+), Şok Ucuzluk Marketleri (1,200+), Dia (900+) and Ucz (900+). As of 2012, BİM is the largest food retailer in Turkey with a revenue of TL c.10 billion.

Although it is the fastest growing segment, foreigners are hesitant to enter the local discount retailing market due to its intense price competition, thus, leaving the entire arena to domestic players.

### Convenience Stores

As it becomes more difficult for convenience stores to survive in the absence of economies of scale, nationwide discount retailers capture their revenues by entering even the most remote points across the country. Under pressure from the fast-growing retail chains, the number of convenience stores in Turkey decreased below 100,000 in 2012, from 165,000 in 1996. However, due to the high fragmented nature of the food retailing market, convenience stores still hold significant market share.

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<sup>1</sup> According to the Competition Board, the total market share of four largest food retailers in 2010 is estimated as 14%.

The same figure for UK, Germany and France are estimated as 68%, 67% and 63%, respectively.

<sup>2</sup> Stock keeping unit.

**Note:** Store data is compiled from company websites, therefore may not reflect the latest figures.



# M&A snapshot

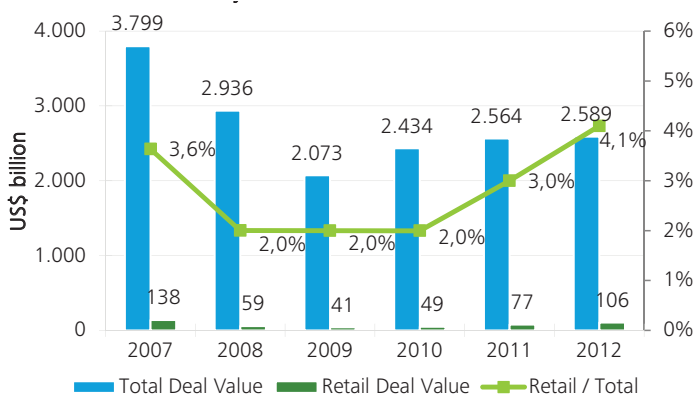
## M&A Activity in the Turkish Retail Sector

Foreign strategic players and private equity firms have been showing profound interest in well-established and fast growing Turkish retail brands. There were 13 transactions in the retail sector in 2012, with an estimated deal value of US\$580 million. 2012 was also a fruitful year for internet retailing as 12 deals materialized

In 2012, the Turkish retail sector experienced the highest number of private equity transactions (6) of all time, which revealed financial investors' strong appetite towards this promising market.

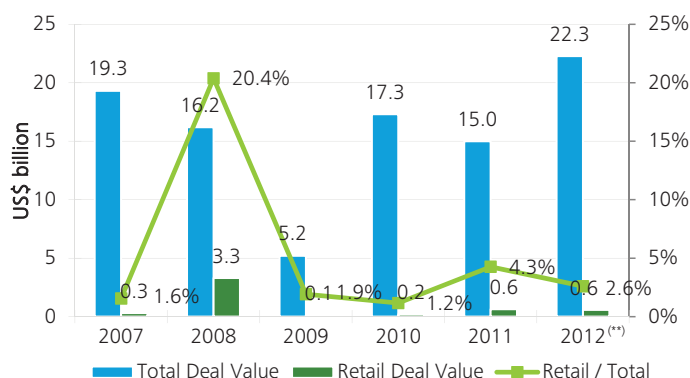
In the first four months of 2013, 5 retail transactions occurred.

## Global M&A Activity



Source: Thomson Reuters

## M&A Activity in Turkey



Source: Deloitte Annual Turkish M&A Review

## Highlighted Transactions

**April, 2013** – Landmark Group, one of the largest retail organizations with more 1,300 outlets in the Middle East and India, acquired 87.5% of Park Bravo Dış Ticaret A.Ş., master franchisee owner of Nine West, Anne Klein and Enzo Angiolini in Turkey. Park Bravo currently runs Nine West operations in Turkey with 42 stores and 45 corners.

**September, 2012** – The Carlyle Group acquired a significant minority stake in Penti which manufactures hosiery and retails women's hosiery, lingerie and swimwear.

**July, 2012** – Bahrain-based investment firm Investcorp acquired 30% of Turkey's leading menswear retailer Orka Group for an undisclosed sum. Orka Groups offers menswear under the Damat, ADV and Tween brands and operates with 63 stores (32 outside of Turkey).

**June, 2012** – Turkven, one of the largest local private equity firms in Turkey, acquired 50% of apparel retailer Koton for an undisclosed sum. Koton operates with nearly 300 stores in 24 countries.

**January, 2012** – Actera Group, one of the most active local private equity firms in Turkey, invested in Joker, the leading retailer of baby and maternity products for an undisclosed sum. Joker operates Joker and Maxi Toys stores in more than 15 cities, and owns a chain of kids' entertainment centers in Turkey.

### M&A Activity in the Turkish Food Retail Sector

Besides a number of undisclosed acquisitions and asset sales, there were 15 announced M&A transactions in the last five years.

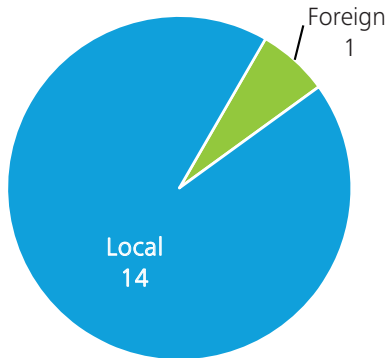
While foreigners are reluctant to enter the Turkish market due to its intense competition, local players are constantly seeking growth opportunities either through capturing market share with aggressive store openings or acquisitions

Having started with Yıldız Holding’s acquisition of DiaSA and Sabancı Holding’s acquisition of more CarrefourSA shares, 2013 is expected to be a fruitful year in terms of M&A activity as some other big-ticket transactions (including the awaited exit of Migros’s financial investors) are expected.

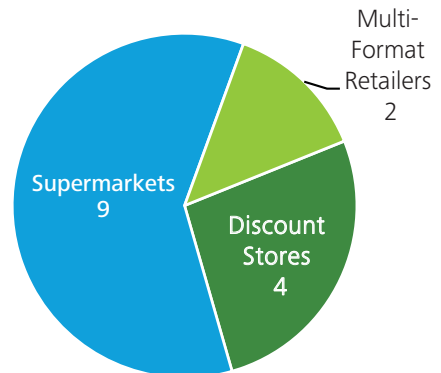
Type of Investor



Investor Origin



Transactions by Business Area



Source: Deloitte Annual Turkish M&A Review

### Highlighted Transactions

**April 2013** – After a long-lasting discussion among the shareholders, Sabancı Holding signed a share purchase agreement for 12% stake of Carrefour in CarrefourSA for a consideration of US\$79 million. Following the transaction, Sabancı Holding will be the majority shareholder in CarrefourSA with a total stake of 51%.

**April 2013** – Yıldız Holding, the leading Turkish conglomerate engaged in food & beverage, packaging, personal care, real estate, financial services and wholesaling businesses acquired the discount retailer DiaSA from Spanish Dia and Sabancı Holding in consideration of US\$179 million. Through acquiring Turkey’s 4th largest discount chain which operates over 900 stores, Yıldız Holding made a major move to promote its competitive stance in the Turkish food retailing market.

**November 2012** – Ankara-based supermarket chain Makro Market acquired 47% of Uyum Gıda, the Istanbul-based supermarket chain for a consideration of US\$45 million.

**June 2011** – With its investment arm Gözde Girişim Sermayesi, Yıldız Holding entered the food retailing market by acquiring the discount retailer Şok Ucuzluk Marketleri from Migros Türk in consideration of US\$380 million.

**February 2008** – A consortium created by private equity firms BC Partners, Turkven and DeA Capital put their signature on the largest retail transaction in Turkey’s M&A history by acquiring 98% of Migros for a consideration of US\$3.1 billion.

# Transactions in the Turkish food retailing sector

#	Acquirer	Origin	Target	Area of Business	Stake Acquired (%)	Deal Value (US\$ million)
<b>Jan-Apr 2013</b>						
1	Sabancı Holding	Turkey	CarrefourSA	Multi-Format Retailer	12.0%	79.0
2	Yıldız Holding	Turkey	DiaSA	Discount Store	100.0%	179.0
3	İsmar Marketler	Turkey	Reyon Marketler Zinciri	Supermarket	100.0%	N/D
<b>2012</b>						
4	Makro Market	Turkey	Uyum Gıda	Supermarket	47.3%	45.5
5	Fimar Holding	Turkey	Uyum Gıda	Supermarket	10.0%	11.0
6	Tesco Kipa	Turkey	Ardaş Gıda	Supermarket	100.0%	N/D
<b>2011</b>						
7	Kiler Holding	Turkey	Kiler Ankara Mağazacılık (Canerler)	Supermarket	50.0%	29.2
8	Gözde Girişim (Yıldız Holding)	Turkey	Şok Ucuzluk Marketleri	Discount Store	99.6%	380.0
9	Kiler Alışveriş	Turkey	Şahmar	Supermarket	100.0%	N/D
<b>2010</b>						
10	Migros Türk	Turkey	Ades Gıda Sanayi	Supermarket	100.0%	8.1
11	Migros Türk	Turkey	Egeden Gıda	Supermarket	100.0%	2.7
12	Migros Türk	Turkey	Amaç Gıda	Supermarket	100.0%	2.2
<b>2009</b>						
13	Turgut Aydın (Private Investor)	Turkey	A101	Discount Store	29.8%	N/D
<b>2008</b>						
14	BC Partners; DeA Capital; Turkven	UK	Migros Türk	Multi-Format Retailer	97.9%	3,100.0
15	Asya Katılım Bankası	Turkey	A101	Discount Store	25.0%	83.6

Source: Deloitte Annual Turkish M&A Review

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